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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY

v.

BICRON CORPORATION, ET AL.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION & INNOVATION AS AMICUS CURIAE

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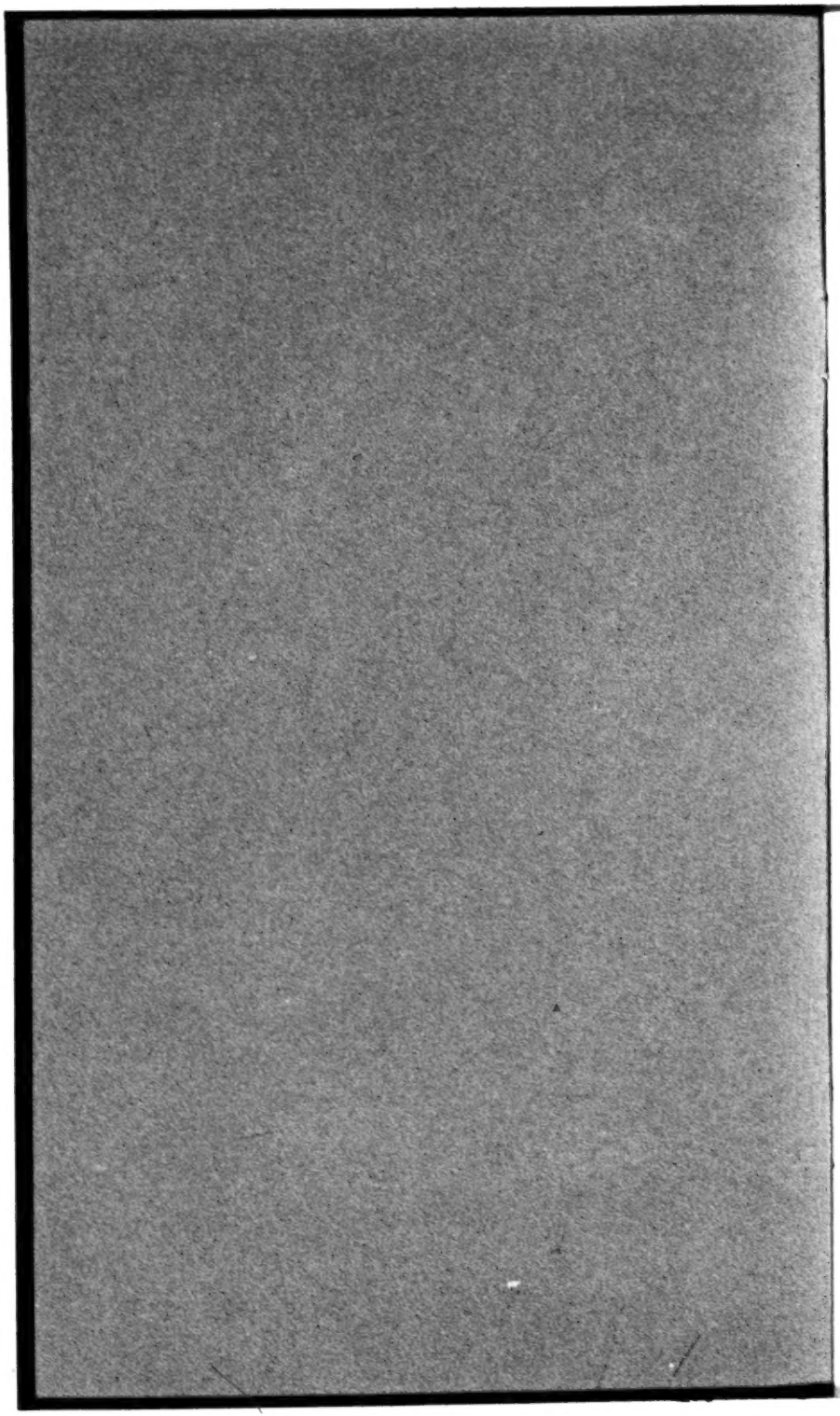

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I. AUTHORITY TO FILE

In a letter dated October 9, 1973, the Office of the Clerk of the Supreme Court advised that the Court granted the motion of the Association for the Advancement of Invention & Innovation for leave to file a brief, as *amicus curiae*, in the present case.

II. PURPOSES OF BRIEF

The major purposes of this brief are to urge this Court:

1. To hold that a state law which protects an inventor or developer in the maintenance of his trade secret, whether it may be of a patentable or unpatentable nature, is not in conflict with Patent Laws.

2. To rule that an inventor or developer has not forfeited his right to protection under a state trade secret law merely because he has used his technology in commerce for more than a year, and

3. To reverse the decision of the Court below to the extent it is contrary to the principles set forth above.

III. INTEREST OF THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION & INNOVATION

The Association for the Advancement of Invention & Innovation is a non-profiit professional association of inventors, entrepreneurs, research directors, businessmen, scientists, engineers, lawyers, patent attorneys, educators, former government officials and others who are dedicated to the proposition of improving the climate for invention and innovation in our country. The combined background of the membership embraces the entire spectrum of the process of invention (conceiving the idea) and innovation (bringing the invention to the marketplace).

The Association believes that to foster an appropriate climate for invention and innovation in our country there must be adequate incentives to invest the time, money and effort needed to bring forth inventions to the marketplace. Such incentives are presently provided by the Patent Laws and state trade secret

laws. To eliminate trade secret protection would remove one of the major incentives for invention and innovation in the country to the detriment of all concerned.

IV. WHY THE DECISION OF THE COURT BELOW SHOULD BE MODIFIED

1. The Nature of Trade Secret Protection Was Not Fully Understood or Appreciated.

The decision of the Court below concludes that ". . . by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States." To the contrary, trade secret protection does not carry with it a general right to exclude others who happen upon the technology in question through their own honest efforts. Any third party who develops the same subject matter himself is entirely free to use or disclose it in any way he wishes. Trade secret protection only guards against others acquiring the technology by theft or breach of a confidential relationship.

The possibility of subsequent independent discovery is the prime risk that is implicit in reliance on trade secret protection. The courts heretofore have universally recognized that the law of trade secrets affords no protection against the honest second discoverer; see for example *Speedry Chems. & Prods., Inc.* v. *Carter's Ink Co.*, 306 F.2d 328, 330 (2nd Cir. 1962); *Grepke* v. *General Elec. Co.*, 280 F.2d 508, 512, 126 U.S.P.Q. 93 (7th Cir.), cert. denied, 364 U.S. 899 (1960); *Ferroline Corp.* v. *General Aniline & Film Corp.*, 207 F.2d 912 (7th Cir. 1953) (applying New Jersey law), cert. denied, 347 U.S. 953, rehearing denied, 348 U.S. 851

(1954). Indeed, there is substantial reason to believe that the first user of a trade secret may not prevail against the *innocent* wrongful user thereof, *Speedry Chems. & Prods., Inc. supra,* wherein it was said:

> "However, the discoverer of such secrets has no exclusive right against another who uncovers the secret by fair means, or against those who acquire knowledge of it without a breach of contract or of a confidential relationship with the discoverer, *American Dirigold Corp.* v. *Dirigold Metals Corp.*, 125 F.2d 446, 52 USPQ 510 (6 Cir. 1942); Nims, Unfair Competition and Trademarks, 4th Ed. p. 418."

Thus, he who relies on trade secret protection has no monopoly and no right of exclusion. His protection is only against the wrongdoer, but this protection is of prime importance when one has spent considerable resources and effort in developing a valuable product or process. By contrast, the Patent Law to the extent pertinent concerns a Government grant of monopoly rights in technology, which rights are assertible against others *wholly independent* of the manner in which they acquire the protected technology.

The Patent Law arms the patentee against any unauthorized use of his invention no matter how the invention becomes known to the infringing party. The patent protects the patented technology for a term of years no matter how well it may become known to the world.

The Patent Laws operate in an entirely different domain than trade secret laws which depend wholly on a finding of wrongful derivation from a rightful possessor. For these reasons, Patent Laws do not and

cannot conflict with trade secret laws such as to preempt them.

2. To Correct an Inaccurate Impression That Trade Secret Laws Duplicate the Patent Laws in Any Real Practical Sense.

It is axiomatic that the first requirement of a trade secret is the ability to maintain secrecy. The trade secret must not be ascertainable from study of products sold and is typically a formulation, factory process or other manufacturing technology. In the absence of a patent, technology which enters the public domain is available for use freely by the public. State laws of unfair competition and the like may not be used to achieve a contrary result, *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964).

Where the technology may reasonably be kept in secrecy, there is equally no convenient way for a prospective patentee to know when the technology which would be disclosed through a patent is used by others. Ability of others also to retain use of the technology secret tends to render patent protection ineffectual. Thus, while trade secrets are sometimes thought of as an alternative to patenting, *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178 (1933), in a very practical sense, trade secret protection is all that is really available for an important class of innovations.

3. To Prevent a Substantial Decrease in the Level of Invention and Innovation in the Country on Account of Reduced Incentives.

The decision of the Court below is contrary to long established legal doctrines and business practices, and, as such, it substantially reduces the benefits that can be

derived from research and development. Thus, when one embarks on a program of research and development one does not know what patentable or unpatentable inventions may be produced. Further, one can really never be sure what inventions will ultimately be held patentable or unpatentable. Thus, the result is that budgets for research and development will undoubtedly be reduced on account of decreased incentives for conducting such programs since trade secret protection would no longer be available as a means to protect the fruits of one's research and development program.

The decision of the Court below will encourage companies to raid their competitors for technical employees in order to learn their competitors' business and factory practices. It would be much less expensive to appropriate competitors' trade secrets through this mechanism than to conduct an independent and expensive research and development program. It is to be noted that the present law on trade secrets in most jurisdictions provides a reasonable balance between protecting as employer's trade secrets while at the same time protecting the employee's right to change his employment. See for example *Allis-Chalmers Mfg. Co.* v. *Continental Aviation & Eng'r. Corp.*, 255 F.Supp. 645 (E.D. Mich. 1966).

The decision of the Court below encourages companies to shift their research and development programs to foreign countries where trade secret protection is available. Also, the decision encourages companies to shift their manufacturing operations to foreign countries for the same reason. The end result of these shifts would obviosly be to reduce jobs for American workers as well as to adversely affect our

international balance of trade. With regard to international aspects of the decision, the decision of the Court below would appear to be in conflict with provisions of international treaties signed by the United States.

4. To Overcome Undesirable Disincentives for the Transfer and Licensing of Technology.

If the decision of the Court below is permitted to stand, licensees will be spurred into discontinuing the payment of royalties under know-how license agreements. This could result in the loss by American licensors of a billion dollars of royalties per year from foreign licensees, which would obviously also adversely affect our international balance of payments. More important, however, would be the reduced incentives for licensors to conduct an active research and development program to generate such know-how in the future. Further, licensors would be discouraged from licensing existing know-how because of the increased likelihood that United States and foreign licensees would not continue for long to pay royalties for such know-how.

If the decision of the Court below is permitted to stand, foreign licensors will hesitate to license their technology to United States companies since U.S. licensees cannot assure foreign licensors that their confidential know-how can be maintained as trade secrets. The net result of such actions would be to increase imports of the products involved or to eliminate them altogether from the American market to the detriment of the American public, to reduce jobs for American workers, and to thereby adversely affect our international balance of trade.

5. Congress and Other Branches of Government Have Long Recognized the Validity of Trade Secret Protection.

By way of example, in the Consumer Product Safety Act of 1972, 15 U.S.C.A. Section 2055(a)(2) entitled "Public disclosure of information", Congress provided for recognition and safeguarding of trade secrets by express reference thereto. In the Armed Services Procurement Regulations (ASPR), Section 9-201(c) provides for possible acquisition by the Government of technical information with "Limited Rights" that in essence normally precludes publication or use by the Government outside the Government. The Federal Rules of Civil Procedure refer at Rule 26(c)(7) to protection of . . . "a trade secret or other confidential research, development or commercial information . . .". While the right to confidentiality of a trade secret is not absolute, for example such right must bow to national emergencies and the requirements of pertinent evidence in litigation, nonetheless the trade secret right has heretofor generally been respected and upheld in law and its administration. The basic principle as succinctly stated by Justice Holmes in the often cited case of *Board of Trade of City of Chicago* v. *Christie Grain & Stock Co.*, 198 US 236, 25 S Ct 637, 49 L ed 1031 (1905), is

> "The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they wished, does not authorize them to steal plaintiff's."

V. CONCLUSION

For the foregoing reasons, amicus urges this Court to modify the decision of the Court below as recommended herein so as to avoid the adverse influences

such decision would have on the climate for invention and innovation in our country as well as world-wide. A great strength of the United States relative to other countries lies in its superior technology, much of which is unpatented. Our favorable balance of trade in technology-intensive products and know-how license agreements where United States manufacturing companies are the licensor supply the practical proof. The United States is primarily in the position of a donor of technology. To condone misappropriation of such technology only serves to dissipate this great strength.

It is submitted that if the basic law is to be change in this field in a way which will have such a major impact on the economic system of the United States (e.g., balance of trade, productivity, etc.) such a change should be effected by Congressional action rather than judicial action.

Respectfully submitted,

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BRIEF FOR AMICUS CURIAE OPTICAL COATING LABORATORY, INC.

I. THE NATURE AND THE INTEREST OF THE AMICUS

A. OPTICAL COATING LABORATORY, INC.

This brief *amicus curiae* is submitted by Optical Coating Laboratory, Inc. (herein "OCLI") under Rule 42(2) of the Supreme Court. Letters in which the parties' counsel have acknowledged consent to the filing of this brief are on file with the Clerk of this Court.

OCLI is a California corporation with advanced technology products and services for the design, fabrication, and testing of vacuum deposited optical coatings. These coatings are deposited on company manufactured parts or on optical components supplied by customers for use in the customers' devices. OCLI coated parts are used in important products to the consumer such as pollution monitoring control devices, burglar alarms, and solar energy conversion systems.

Although it is not a large corporation (net sales and other revenues in 1972 of approximately 11.4 million dollars) it has established a reputation for leadership in developing new processes, products and markets. Such development expands the frontiers of knowledge in its field and makes new products available to the public. However, it requires large expenditures of time and money in research and development (herein "R&D") with a substantial staff of highly trained technical personnel. The reward for this investment of many years of costly experimentation is made possible by protecting trade secrets and know-how using tight security. Such information gives OCLI an advantage over those competitors which do not expend comparable efforts towards R&D.

B. INTEREST OF THE AMICUS

OCLI is concerned that if the Circuit Court decision below is affirmed, this would create a legal precedent under which a significant portion of the fruits of OCLI's costly R&D would become unprotectable. Therefore, it would be vulnerable to dissemination by unscrupulous competitors who, for example, could freely raid experi-

enced OCLI employees and obtain the information at a fraction of its cost to OCLI.

II. ARGUMENT

A. PURPOSE OF BRIEF

The legal arguments as to the applicable law will be presented in detail not only by the parties but by many briefs *amicus curiae* which are being filed by other *amici*. The purpose of this brief is to present a case history of OCLI's technological information management program and the potentially devastating effect upon OCLI which would result from an affirmation of the decision of the Circuit Court. It is believed that this affirmation would produce a similar harmful effect upon many other innovative domestic companies to the detriment of the advancement of technology in the United States.

Since OCLI is a California corporation, the applicable California trade secret law is worthy of note. As enunciated by the Ninth Circuit, equitable relief is available to prevent disclosure of trade secrets under state law. The Patent Law, Title 35 of the United States Code, has not been construed as preempting this field.[1]

B. THE POTENTIAL LEGAL EFFECT OF AFFIRMATION

If this Court affirms the decision below, this would, in essence, establish a precedent termed for this discussion the "Kewanee Rule". Under this rule, protection by the

---

[1]Dekar Industries, Inc. v. Bisset-Berman Corporation, 434 F. 2d 1304 (9th Cir. 1970) *Cert. Den.* 402 U.S. 945 (1971).

state law of trade secrets which are appropriate subjects for patent would be preempted by the Patent Law, after the subject matter of the trade secret has been "used commercially" for more than one year. Under 35 U.S.C. 101, such preempted "appropriate subjects" include any "new and useful process, machine, manufacture or composition of matter" and so are not limited to concepts patentable under the stringent requirements of Sections 102 and 103 of the Patent Act. Accordingly, under the Kewanee Rule, essentially the entire field of trade secrets and proprietary know-how would be unprotectable under State trade secret law after one year of commercial use.[2]

C. OCLI's RESEARCH AND DEVELOPMENT PHILOSOPHY PROMOTES PROGRESS

Because it is highly innovative and develops new products and markets simultaneously, OCLI expends substantial amounts of time and effort upon research and development. There are many times when this expense is not fully recouped or when the product is not marketed at all.

There are a number of reasons why OCLI management authorizes the large expenditures required for innovative research and development on its products and processes and the machines for producing them. If the new development is successful, OCLI derives a competitive advantage

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[2]Under the Patent Act, such commercial use commences at the sale of one item for commercial purposes even though the trade secret cannot be determined by viewing the product. Typically, such sales occur many years prior to any profitable commercialization of the product and so, under the Kewanee Rule, the costly creation of the information would go unrewarded.

during commercialization of the product, typically at least five to ten years. Under the Kewanee Rule, this competitive advantage would cease after the first year of commercial use because the trade secret information would be available; for example, to a competitor hiring away a knowledgeable OCLI employee.

Another reason for such management authorization is that, even if a particular project is unsuccessful, the information derived from such projects can be of great value in creating a reservoir of OCLI expertise for use in related areas of technology. For example, OCLI spent approximately $250,000 to develop high grade products (photomask blanks) for the electronic integrated circuit industry. This money was primarily used to optimize the processing steps to produce increased final product yield and superior quality. Even though OCLI was not successful in this specific market place the technical knowledge gained from this effort is proving invaluable in other related fields.

If management knew that it could not legally protect the information derived from such research and development under applicable trade secret law, as would be the case under the Kewanee Rule, it would hesitate to develop innovative new products and markets where there is a significant chance of failure to recoup the investment from the product itself. Thus, management would be forced to seriously consider a total re-emphasis of R&D expenditures so that, for example, risky projects to develop new advanced products are reduced in priority. Instead, the more profitable path in the absence of trade secret protection would be to expend more funds to im-

prove the production efficiency in the manufacture of existing products. The net effect would be to inhibit technological progress.

D. OCLI PROPRIETARY INFORMATION IS NOT ADEQUATELY PROTECTED BY PATENTS

A significant proportion of OCLI R&D expenditure is for engineering the development of processing steps in vacuum deposition of optical thin films. Precision coatings, under high vacuum, often require deposition of as many as 50 to 200 thin film layers of different compositions and thicknesses. For example, thousands of specific coatings and coating procedures have been developed by OCLI. OCLI considers the proprietary data and information developed by such research to be of great value and takes elaborate precautions to retain it in secret. Such information includes what is understood to be "trade secrets" and "proprietary know-how".

The great majority of the foregoing developments involve the engineering optimization of detailed processes. Typically, such details are characterized by the United States Patent Office as obvious subject matter to a person having ordinary skill in the art as defined under 35 U.S.C. 103. Thus they would be considered by the Patent Office to be unpatentable and therefore unprotectable in the absence of state trade secret law. Thus, under the Kewanee Rule, this valuable information could not be protected at all.

OCLI develops as many as one thousand or more coating compositions and procedures a year. A company of

OCLI's size does not have the resources to file patent applications on each one. Thus, even if the compositions and procedures were patentable, the only practical way to protect most of this information is under applicable state trade secret law.

E. OCLI TRADE SECRET AND KNOW-HOW LICENSING BENEFITS THE PUBLIC

1. Licensing Domestic Companies

Domestic licensing has become an important source of revenue to OCLI and is a reward for its R&D investment which provides new products for the public. The public is further benefited because the licensees often manufacture products in direct competition with OCLI and other companies making similar products.

When OCLI has licensed its trade secrets and know-how, the agreements bind the licensees to keep the information in strict confidence. Under the Kewanee Rule, OCLI would not be able to domestically license such technology because the information could be freely disseminated by the licensees to third parties after one year of commercial use of the information.

Another reason for the inability of OCLI to domestically license under the Kewanee Rule would be that a potential licensee might hesitate to expend considerable sums of money for this information. Instead, it could, if it is so desired, hire knowledgeable technical employees of OCLI who had access to the company's trade secrets developed by OCLI personnel over the years. Indeed hiring such an employee would not even be necessary if the

potential licensee could bribe or otherwise persuade him to divulge the information. Such methods of acquisition would be at a small fraction of OCLI's cost for the research and development involved.

The undersirable net effect of the Kewanee Rule would be to penalize OCLI because it is willing to support progressive R&D programs.

2. Licensing From Foreign Companies

OCLI has licensed technology from abroad. In one instance, OCLI paid almost $900,000 to a European company to obtain trade secrets and know-how relating to durable thin films. Although the license was executed after the first year of sale by the European company in the United States, the information obtained by OCLI enabled it to begin production in new fields and to advance the technology of the same. These products derived from this licensed technology have returned many millions of dollars over the years.

The management of OCLI believes that it would not have attempted to expand into this field of technology without the proprietary information it purchased under the license agreement. Since the European company continued selling goods in the same market to the United States, the above agreement established domestic competition of goods where none would have existed otherwise.

Under the above license agreement OCLI was obligated to hold the proprietary information in strict confidence. Under the Kewanee Rule, OCLI could not have protected this information and so the European company might

not have licensed OCLI, resulting in a loss of revenue to OCLI and lessened competition in the United States.

3. Licensing by OCLI to Foreign Companies

OCLI licensed trade secrets and know-how to a Japanese company in an agreement in which proprietary information was strictly protected by both parties. The license fees under the agreement amounted to an initial payment of $150,000 and subsequent yearly payments of about half that amount. Agreements of this type enable OCLI to obtain the rewards for its costly and successful R&D expenditures. Without such agreements OCLI would be required to reduce such expenditures to the detriment of domestic technological progress.

One reason why the Japanese company might not license under the Kewanee Rule is that it could hire away employees of OCLI for a small percentage of the value of the information under a license. Also, since OCLI could not protect this information from its competitors, the value of the information would be substantially reduced.

F. VALUE OF TRADE SECRET AND KNOW-HOW LICENSE SUBSTANTIALLY INCREASES AFTER FULL COMMERCIALIZATION.

It is a commercial reality that trade secrets and know-how which have not been fully developed in the market place are worth substantially less than the same information relating to the same product after full scale commercialization and development of the market. Because this usually occurs long after the first commercial sale,

all of OCLI's licenses over the years have been granted long after one year of commercial product sale. Thus, OCLI would not be able to enforce such licenses under the Kewanee Rule.

Even if OCLI attempted to license its trade secrets and know-how during the early stages of development and before the expiration of one year after first commercial sale, such license would be of negligible commercial value. This is because potential licensees could wait until after the one year period, and legally acquire the information from a disloyal employee for a fraction of the cost of licensing.

G. ADVERSE EFFECT ON OCLI SUBCONTRACTS

OCLI does a substantial amount of subcontract work for large corporations such as Xerox, IBM, and Polaroid. All of such contracts relate to OCLI's developing new component parts in the contractor's complete devices and include strict clauses to protect the proprietary information of the contractor.

Under the Kewanee Rule, OCLI would not be in a position to protect the contractor's valuable proprietary information. Under such circumstances, such companies would not risk OCLI's custody of this information and so most likely would attempt to perform such services "in house". This would damage small companies, such as OCLI, which rely heavily upon subcontract work. Also, it would tend to reduce competition in the United States.

H. INTRACOMPANY POLICY EFFECT—MORE LIMITED ACCESS TO TECHNICAL INFORMATION

All technical personnel of OCLI are subject to confidential employment agreements. OCLI encourages such technical personnel to become versed in all phases of OCLI's business. This leads to cross-pollination of information and consequent greater efficiencies in both production and R&D within the company.

Under the Kewanee Rule, technical personnel could not be prevented from leaving the company and taking with them trade secrets and know-how developed by OCLI over the years. Thus, OCLI would be required to strictly review its policy regarding free access of information to its technical personnel in order to protect the company against raids of such personnel by competitors. Such restrictions would obviously lead to inefficiency within the company.

I. OCLI's USE OF OUTSIDE CONSULTANTS WOULD BE REDUCED

OCLI utilizes a number of outside consultants, all of whom sign agreements to protect any proprietary information to which they had access during consultation. Under the Kewanee Rule, OCLI would be extremely hesitant to permit such consultants to have such access because it could not protect its proprietary information.

Many consultants are employed for their knowledge of new fields into which OCLI is considering entry. OCLI's failure to use such consultants would tend to decrease the efficient exploration of such new fields.

J. REDUCED INCENTIVE FOR OCLI TO SELL OR LICENSE MACHINES TO ITS COMPETITORS

OCLI has sold and licensed a number of its optical coating machines to competitors under strict agreements to protect its proprietary information. The purchasers of such machines manufacture products which compete with OCLI's products in the United States.

Under the Kewanee Rule, OCLI would be less likely to sell such machinery since it could not protect its valuable proprietary information.

III. CONCLUSION

In view of the foregoing, affirmance of the Circuit Court would severely prejudice OCLI for its creative but costly research and development in at least the following ways:

(1) it would create incentive for predatory raiding of OCLI's valuable technical personnel by its less innovative competitors;

(2) OCLI would be forced to reduce the more risky phase of its research and development, i.e., that directed to new fields and products;

(3) it would greatly restrict OCLI's access to foreign technology and the ability of OCLI to sell its technology in foreign countries, resulting in a competitive disadvantage to OCLI with relation to companies in such foreign countries;

(4) it would drastically reduce subcontract work by OCLI, an important source of revenue to it; and

(5) it would require a reduction in OCLI's use of outside consultants.

The domestic public would also suffer if the lower court is affirmed. Technological progress would be decelerated because OCLI and other innovative companies would have reduced incentive to invest in costly research and development and would have restricted access to both foreign and domestic technical information. In addition, there would be a lessening of competition in the United States market.

For the reasons stated it is respectfully submitted that the judgment of the court below should be reversed.

Dated, San Francisco, California,
November 19, 1973.

Respectfully submitted,
HAROLD C. HOHBACH,
DAVID J. BREZNER,
Counsel for Optical Coating Laboratory, Inc., Amicus Curiae.

(Appendix Follows)

STATE OF CALIFORNIA)
COUNTY OF SONOMA) ss

DANFORTH JOSLYN, being duly sworn, deposes and states as follows:

1. He is executive vice president and director of Optical Coating Laboratory, Inc., (OCLI). In that capacity, he is thoroughly familiar with the technological information program of OCLI and participates in management decisions concerning such program.

2. He has carefully reviewed the foregoing brief amicus curiae and affirms, on behalf of himself and OCLI management, that the facts are true within his knowledge and belief and the opinions expressed reflect those of OCLI management.

Danforth Joslyn
DANFORTH JOSLYN

Subscribed and sworn to before me this 14th day of November, 1973.

Barbara L. Fisher
Notary Public

OFFICIAL SEAL
BARBARA L. FISHER
NOTARY PUBLIC-CALIFORNIA
SONOMA COUNTY
My Commission Expires May 7, 1975

P. O. Box 1599, Santa Rosa, Calif. 95403

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BRIEF AMICUS CURIAE OF THE AMERICAN BAR ASSOCIATION

Interest of Amicus

The American Bar Association, consisting of over 175,000 lawyers throughout the United States, includes a substantial number of members regularly counseling clients concerning the assertion of and defense against patent and trade secret rights. The Association appears here in an attempt to assist the Court in the orderly development and clarification of trade secret law.

The Background Facts

Trade secrets frequently are of immense value. They are acquired by the expenditure of time and effort and investment so as to afford an advantage over competitors.

They are the subject of extremely valuable licensing arrangements both intranational and international.

Trade secrets are the subject of state criminal statutes. At least 21 states of the United States have adopted statutes making it a crime to steal trade secrets—with no distinction as to whether or not they are patentable.[1]

For at least three quarters of a century state courts throughout the United States, and many Federal Courts which have considered the issue, have found that the common law of the states, or state statutes, protect the owner of trade secrets from their theft or their unlawful disclosure or use in violation of a contract or a fiduciary relationship. Most of the states have held that their common law does so protect trade secrets, whether patentable or not. Representative of such decisions is that of

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[1] Ark. Stat. Ann. 6641-3949 to 6641-3951 (1967)
Cal. Penal Code §499c (1967)
Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967)
Ga. Crim. Code § 26-1809 (1968)
Ill. Rev. Stat. Ch. 38 § 15-1 to 15-9, § 16-1 (1965)
Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969)
Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967)
Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967)
Mich. Compl. Laws §§ 752.771 to 752.773 (1968)
Minn. Stat. Ann. § 609.52 (1967)
Neb. Rev. Stat. Ch. 28, §§ 548.01 to 548.03 (1965)
N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)
N.J. Stat. Ann. §§ 2A: 119-5.1 to 119-5.5 (1965)
N.M. Stat. Ann. § 40 A-16-23 (1967)
N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967)
N.C. Gen. Stat. § 14-75.1 (1967)
Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967)
Okla. Stat. Tit. 21, § 1732 (1968)
Pa. Stat. Tit. 18, § 4899.2 (1965)
Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

the Connecticut Supreme Court entitled *Plastic and Metal Fabricators Inc.* v. *Roy* reported at 163 Conn. 257, 303 A.2d 725 (1972).

This protection afforded to trade secrets in the United States is similar to protection afforded in the other industrial countries of the world. Indeed, the United States is party to international treaties which protect against "competition contrary to honest practices in industrial or commercial matters" and acts "contrary to commercial good faith"[2].

In the case at bar, the pertinent findings, in the language of the Circuit Court of Appeals, are as follows:

> "On this record, as a whole, it appears clear to us, as it did to the District Court, that the individual defendants used the information obtained during their employment by Harshaw for the benefit of Bicron. There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques. (478 F.2d 1076)
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> • • • • •
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> "In addition the mere showing or writing about certain manufacturing techniques was found by the District Judge to be insufficient to amount to a disclosure to the public of those trade secrets involved

[2]Article 10 bis of the Paris Convention Act of Lisbon, 1958, 13 U.S.T. 1 reads in part: "(1) The countries of the Union are bound to assure to persons entitled to the benefit of the Union effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." Article 20 of the Pan American Convention, 46 Stat. 2907, reads in its entirety, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and, therefore, unjust and prohibited."

in this law suit, which were found by the District Court to be trade secrets within the law. (478 F.2d 1077)

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"After careful consideration of the entire record it appears that the findings of fact of the District Judge are not clearly erroneous within the meaning of Rule 52, Federal Rules of Civil Procedure, 28 U.S.C., and the District Judge properly applied the Ohio law relating to trade secrets." (478 F.2d 1077)

The Confusion Below

The American Bar Association respectfully suggests that the Court below was in error in thinking that the Ohio law relating to trade secrets resulted in "the maintenance of a monopoly". This error led it to reason that the state law could not be enforced because the patent laws were the only ones which could provide a monopoly. The Court's confusion of state trade secret laws and monopolies was, therefore, a pivotal error below.

The trade secret law of Ohio, and that of all other states, provides a type of protection for these secrets which is distinctly different from the monopoly obtainable under the patent laws. The right which the patent law grants permits the patent owner "to exclude others from making, using or selling the invention throughout the United States" for a stated period. (35 USC 154) This is a broad right to exclude, which extends even to those who may independently make the same invention at some later time. No such right to exclude arises out of state trade secret law. On the contrary, the owner of a trade secret only has (1) the right to prevent those who have stolen the secret from him from disclosing or using it, and (2) the right to prevent others from disclosing or using it in breach of contract or by violation of a fiduciary relation-

ship. It is impossible, for example, for the owner of such a trade secret to assert any "trade secret" right against any person who independently develops the same secret. Indeed, it is well settled that more than one person may simultaneously and independently be in possession of the same trade secret.[3] The owner of a new technological development which is patentable therefore has the option of choosing between the broad right to exclude others—the monopoly grant—provided under the patent laws, and the narrow right to keep others from stealing or using his secrets in breach of a contract or of a fiduciary relationship.

This Court Has Consistently Recognized The Differences Between Patent Rights and Trade Secret Protection

These differences between the rights arising under the patent law and the rights in trade secrets have been stated by this Court many times. In *Becher* v. *Contoure Laboratories* (279 U.S. 388), Mr. Justice Holmes said:

> "It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of Oppenheimer's claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust. *Irving Iron Works* v. *Kerlow Steel Flooring Co.*, 96 N.J. Eq. 702, 126 A. 291; *Du Pont deNemours Powder Co.* v. *Masland*, 244 U.S. 100, 37 S.Ct. 575, 61 L.Ed. 1016. Oppenheimer's right was independent of and prior to any arising out of the patent law, . . .".

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[3] (Callmann, *The Law of Unfair Competition and Trade Marks*, 2nd Ed., 1950, Vol. 2, Ch. 14, Sections 51-54; Ellis, Trade Secrets, 1953, Ch. 2; Restatement of Torts (1939) Section 757.

In *Chicago Board of Trade* v. *Christie G. & S. Co.*, (198 U.S. 236, 1905), Mr. Justice Holmes said:

> "It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's. Compare *Bleistein* v. *Donaldson Lithographing Co.*, 188 U.S. 239, 249, 250, 47 L.Ed. 460, 462, 23 Sup. Ct. Rep. 298. The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust, and using knowledge obtained by such a breach." (198 U.S. 250)

In the *United States* v. *Dubilier Condenser Corp.* (289 U.S. 178, 1933), Mr. Justice Roberts said:

> "An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the commodity by adding to the sum of human knowledge. (citing cases) He may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but, upon the expiration of that period, the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use. *Kendall* v. *Winsor*, 21 How. 322, 327, 16 L.Ed. 165; *United States* v. *American Bell Telephone Co.*, supra, page 239 of 167 U.S., 17 S.Ct. 809. To this end the law requires such disclosure to be made in the application for patent that others skilled in the art may understand the invention and how to put it to use." (289 U.S. 186, 187)

Therefore, for almost three quarters of a century the distinction between monopoly rights granted by a patent and the protection granted by states under trade secret laws has been thoroughly understood. Indeed, the two concepts have lived in harmony, together supporting the public interest in strengthening and advancing the industrial vitality of the United States.

Congress and State Trade Secret Law

It is quite apparent that Congress is not aware that it preempted trade secret law in adopting the current patent statute, passed in 1952. There is no statute enacted by Congress since that date which implies any preemption of the trade secret law of the states. Additionally, although state trade secret law was in existence for well over half a century before passage of the 1952 patent act, there is not one word in that entire statute which provides for any preemption of any trade secret law.

Furthermore, the "Commentary on the New Patent Act" which appears as part of the West Publishing Company's United States Code Annotated, prepared by Mr. P. J. Federico—one of the principal drafters of the 1952 patent act—has not one single word which would suggest that the 1952 patent act was intended to preempt state trade secret law.

In addition, and even though there is no statute passed by Congress since 1952 stating that the patent statute of that year created any preemption of the state law of trade secrets, Congress has passed numerous statutes which in other ways relate to trade secrets. This action of Congress thus leads to the inexorable conclusion that no such preemption was ever intended by Congress. (These

statutes are listed as footnote 5 on page 13 of the Petition for Writ of Certiorari in this case, and therefore are not repeated here.)

It is interesting to conjecture, however, what result would obtain in the Sixth Circuit should a criminal action be brought against an employee of the United States under 18 USC 1905 (1970) which makes it a federal crime for a United States officer or employee wrongfully to disclose a trade secret which comes to him in the course of his employment. There is, of course, nothing in that statute which makes it inapplicable to the disclosure of a trade secret of a patentable nature which has been used commercially for more than one year. If a federal employee disclosed such a trade secret, obtained by him from another in the course of his employment, he would be criminally liable. It seems obvious that the Congress would never have passed the criminal statute recited above had it been under the impression it had preempted a certain class of trade secrets from state protection when it passed the patent statute in 1952.

Preemption

The sole basis in law for the decision of the Court below was not any action of Congress but rather the question asked by this Court in *Lear, Inc.* v. *John S. Adkins*, 395 U.S. 653 (1969). At that time—and very wisely—this Court decided it should not "attempt to define in even a limited way the extent, if any, to which the states may properly act to enforce the contractual rights of inventors of unpatented trade secrets" (page 675). The Court below, improvidently we urge, rushed in to decide an issue which this Court refused to decide. In so doing the Court below obviously did violence to a

well-established body of law involving property rights of immense value, having both national and international ramifications.

If such law is to be changed, we submit it should only be done by the Congress of the United States after complete hearings. Such hearings should cover the manner in which investment is made in the creation of trade secrets and the extent of such investment. The hearings should also embrace the effect of any proposed change in trade secret law on: licensing practices and the international balance of payments; the import of foreign trade secrets into the United States; the pertinent treaties to which the United States is a party; our country's technology resource, and all other issues which would be affected by the overthrow of settled law in this area. Clearly, only the Congress can obtain the requisite information to determine whether there should be a change in the law and, if so, to what extent. No Court is in as favorable a position to do so. As this Court said in *Gottschalk* v. *Benson & Tabbot*, 93 S.Ct. 253 (1972):

> "It may be that the patent laws should be extended to cover these programs, a policy matter to which we are not competent to speak. . . . . If these programs are to be patentable, considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by Congress is needed."

Furthermore, this precise issue of preemption of state trade secret law by the patent statutes is before the Con-

gress at this time.[4] On September 27, 1973, President Nixon ordered the Commerce and Justice Departments to transmit to the Congress a proposed patent act. This was introduced into the Senate by Senator Scott as S.2504. The President's message of transmittal states, *inter alia,* that the legislation "would ensure that the patent laws not be construed to replace or preempt state laws concerning trade secrets so long as those state laws do not interfere with the free flow of ideas in the public domain." It should be noted that in the case at bar—as distinguished from the factual situation in *Sears* (376 U.S. 225, 11 L.Ed. 2d 661, 84 S.Ct. 784 (1964)) and in *Compco* (376 U.S. 234, 11 L.Ed.2d 669, 84 S.Ct. 779 (1964))—the courts below agree that the fact is that we are dealing with trade secrets and not with "ideas in the public domain."

CONCLUSION

This case presents a simple, and yet historic, issue. Its ramifications are of tremendous importance. The American Bar Association urges that the decision below be reversed and that any such dramatic change in state trade secret law, as attempted by the Court below in this case, be stated to be in the sole province of the Congress of the United States.

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[4] The American Bar Association has urged such legislative action, having adopted a resolution in 1970 favoring legislation making it plain that the patent laws of the Unitel States are not to be construed to preempt or to affect state or other federal law relating to trade secrets. This resolution was generated by the decision of the trial court in *Painton & Company Ltd.* v. *Bourns, Inc.* (309 F.Supp. 271). That decision was reversed by the Second Circuit Court of Appeals (442 F.2d 216).

Respectfully submitted,

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OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner,*

vs.

BICRON CORPORATION, LLOYD H. HAMNER, JULIOUS M. MENEFEE, WILLIAM P. NOVAK, RICHARD W. SPURNEY AND HARRY SUSCHEK, *Respondents.*

BRIEF ON THE MERITS FOR THE AMERICAN PATENT LAW ASSOCIATION, AMICUS CURIAE

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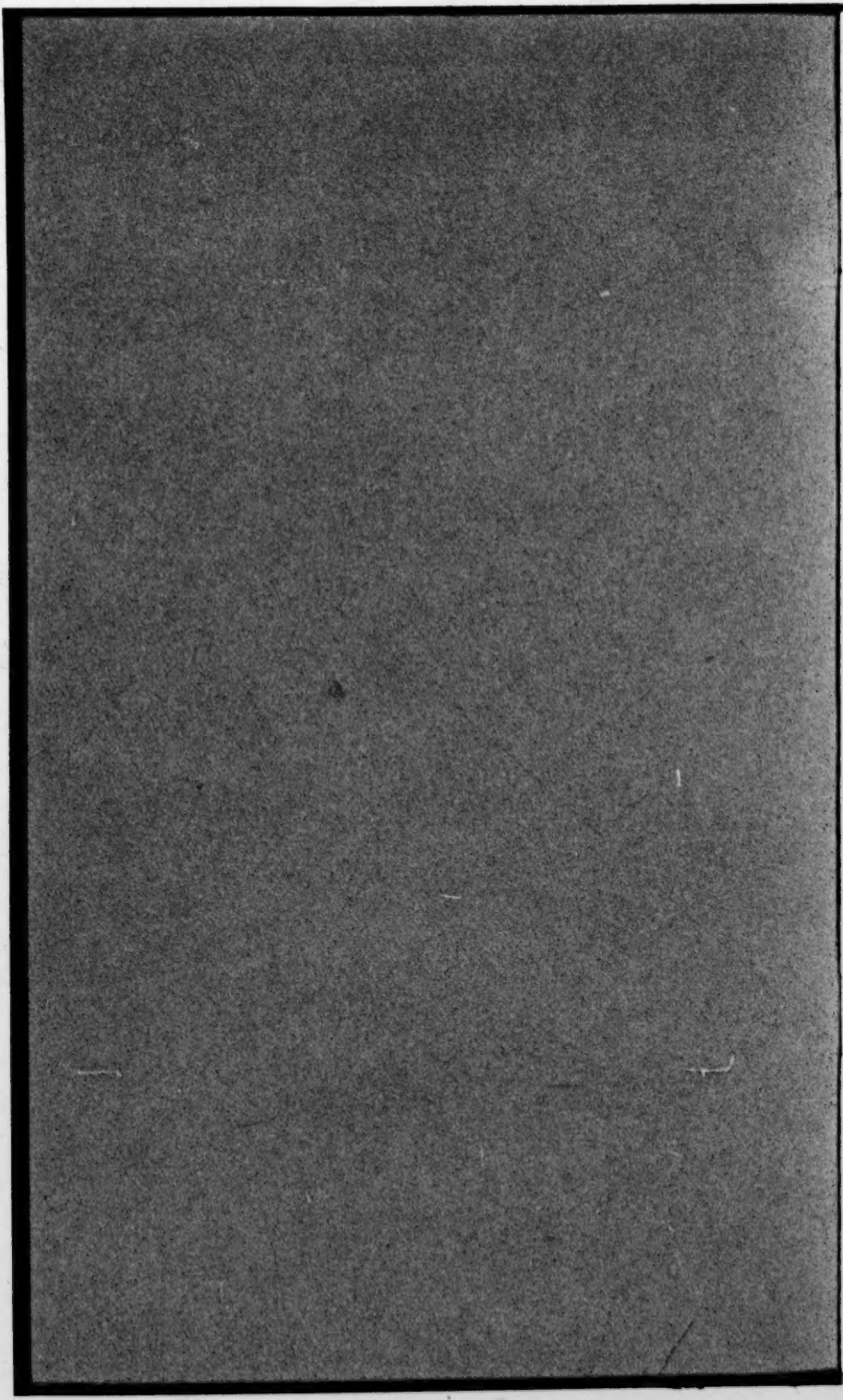

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BRIEF ON THE MERITS FOR THE AMERICAN PATENT LAW ASSOCIATION, AMICUS CURIAE

INTRODUCTION

This brief amicus curiae is submitted by the American Patent Law Association under Rule 42(2) of this Court. Letters of consent from counsel for the respective parties are on file with the Clerk of this Court. This brief is filed in support of the Petitioner and to express our reasons for believing the Court below has erred.

The filing of this brief on behalf of the Association has been authorized by the Board of Managers, which is elected by the members. The Association has over

3,800 members, including over half of the Patent Lawyers in the United States.

I.

The court below has held that the United States patent law preempts state common law trade secret protection to inventions which might be patentable. In terms, the patent statutes neither require nor preclude this holding. However, the scheme of the patent law, past and present provisions of the patent and related laws, and long standing judicial decisions, show that the court below has erred. Indeed, the omission of a preemption clause in the 1952 Patent Code (66 Stat. 792) itself demonstrates Congressional intent not to disturb the non-preemption implicit in the well developed body of technical trade secret law.

In order to obtain a patent, the inventor must file an application fully disclosing the invention. 35 USC 112. The application, and therefore the invention, is made public upon issuance of the patent. A defective or inadequate specification will not support a patent. But if the invention is patentable, and the specification and other requirements of the patent law are met, the inventor receives a "right to exclude others" subsisting for 17 years despite the disclosure of the invention. 35 USC 154. In short, the inventor must forego secrecy if he is to have a patent but he obtains a right that survives disclosure.

When an invention is kept secret, no patent law rights can be obtained. The inventor is relegated to (a) whatever benefit he can obtain from his own secret use of the invention, and (b) the limited tort or contract based state law relief he can secure against persons who discover the secret by improper means or

disclose or use the secret in violation of an obligation of confidence or a contract. 4 Restatement, Torts § 757. The date when secrecy is lost terminates the period for which state law relief is available and, at least in most instances, ends the duration of any injunctive remedy. See *Forest Laboratories* v. *The Pillsbury Company*, 452 F(2d) 621 (7th Cir., 1971).[1]

In short, the United States patent law operates in the domain of disclosed public information, and the state trade secret law operates in the domain of what is kept secret. The protection is complementary, not overlapping.[2] Except for the decision below, there

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[1] The classic analysis of the rights of owners of "unpatented inventions" is contained in Robinson, The Law of Patents (1890). Sections 867-883 of this treatise are devoted to "wrongs against unpatented inventions." These sections develop the non-preemption doctrine that has been universally applied except for the decision below and the District Court ruling in *Painton* v. *Bourns*, 309 Fed. Supp 271. (S.D.N.Y., 1970, rvsd. at 442 F(2d)(216)).

[2] The philosophical and practical difference between the state trade secret law and the patent law is brought out by the requirements for a successful trade secret case. In such case, the plaintiff must (a) identify the alleged secret, (b) prove adoption of security measures to insure secrecy, (c) show preservation of the secret by reasonable, enforceable, agreements or other confidential relationships with persons to whom the secret is revealed, (d) establish that the defendant's use of the secret stems from knowledge obtained from the plaintiff, (e) establish that the secret is not revealed by inspection or analysis of any marketed products, and (f) be prepared to negate defenses such as independent development of the trade secret by the defendant or others. There is, however, no requirement of "unobviousness" in the patent law sense. On the other hand, the plaintiff in a patent case need only prove the fact of the patent, his ownership, and the fact of infringement. It matters not whether defendant learned of the invention from plaintiff or developed it independently. He must, however, be prepared to overcome defenses such as anticipation by the prior art and obviousness over the prior art.

is no occasion for the patent laws to disclaim preemption of state trade secret law, for the two separate laws can and do coexist without conflict.

It is clear from past and present provisions of the patent law that Congress intended to maintain, not destroy, traditional trade secret protection for inventions. For example, 35 USC 24 provides for subpoenas in aid of testimony in contested matters before the Patent Office. The statute provides that no "witness shall be deemed guilty of contempt . . . for refusing to disclose any secret matter except upon appropriate order of the court which issued the subpoena." Prior to the 1952 Patent Code, the statute read "no witness shall be deemed guilty of contempt . . . for refusing to disclose any secret invention or discovery made or owned by himself." R.S. 4908, Section 45 of the 1870 Patent Act (16 Stat. 198). Significantly, this qualification was added in the 1870 Patent Act after a decade of experience under Section 1 of the 1861 Act (12 Stat. 246), which was otherwise similar.

Likewise, from 1836 until after 1903, the patent law provided for special disclosures known as caveats to be filed in the Patent Office. It required that each "caveat shall be filed in the archives of the office and preserved in secrecy." R.S. 4902, Section 40 of the 1870 Patent Act (16 Stat. 198), and Section 12 of the 1836 Patent Act (5 Stat. 117). Also, 35 USC 122 directs that "applications for patents shall be kept in confidence by the Patent Office . . . ." The Reviser's Notes state that "This section enacts the Patent Office rule of secrecy of applications."

The foregoing statutes would be superfluous if, as the court below has held, the patent law preempts protection for trade secrets involving inventions.

When the Congress has intended preemption in patent matters, it has said so. Thus 28 USC 1338 states that the jurisdiction of the Unted States District Courts in "any civil action arising under any Act of Congress relating to patents . . . shall be exclusive of the courts of the states in patent cases." Even this preemption is limited. In *Becher* v. *Contoure Laboratories,* 279 U.S. 388 (1929) a state court suit "had for its cause of action the breach of a contract or wrongful disregard of confidential relations both matters independent of the patent law" and "subject matter (of) undisclosed invention (that) did not need a patent to protect it from disclosure by breach of trust." Id. at 391. This Court refused to enjoin the state court action because the "right was independent of and prior to any arising out of the patent law." Idem. Both this Court's ruling in *Becher,* and the statute upon which it is based, are inconsistent with the preemption doctrine applied below in this case.

The theory of the ruling below is similar to the petitioner's contention in *Mazer* v. *Stein,* 347 U.S. 201 (1954). In *Mazer* it was argued that the design patent law preempted copyright law protection to works of art incorporated in utilitarian lamp bases. Rejecting this contention, this Court held that "the patentability of the statutes, fitted as lamps or unfitted, does not bar copyright as works of art." Id. at p. 217. The same principle applies in the present case. The patentability of a trade secret, or its former patentability, does not preclude common law trade secret protection. In *Mazer* v. *Stein* the copyright statute showed Congressional intent inconsistent with preemption. In the present case, the above-discussed provisions of the patent and other laws, taken in conjunction with the long-standing judicial recognition of common law

trade secret protection to inventions, show a like Congressional intent to leave such trade secret protection unaffected.

II.

The court below specifically applied its doctrine of preemption to trade secrets that once could have been patented but are no longer patentable because of more than one year's commercial use.

The doctrine of unpatentability relied upon stems from *Macbeth-Evans Glass Co.* v. *General Electric Co.*, 246 Fed. 695 (6th Cir., 1917). The court was not there concerned with whether trade secret rights did or did not exist. Rather, the suit was upon a patent, and the patent disclosure itself had terminated trade secret rights. The court did hold that there was a forfeiture of the right to patent protection because "the . . . choice made (between trade secret and patent) was deliberate and is unmistakable; it was the secret use for profit and was persisted in for years" and "If the right to secure protection of the patent laws can be effectively repudiated, it certainly has been here." Id. at p. 701. In *Metallizing Eng. Co.* v. *Kenyon Bearing*, 153 F(2d) 516 (2d Cir., 1946), Judge Learned Hand—applying the *Macbeth-Evans* doctrine—stated that the inventor "must content himself with either secrecy, or legal (patent) monopoly." Id. at p. 520.

Rather than supporting the ruling below in the present case, these decisions show that patent protection and trade secret protection are two different things—and that only an attempt **both** to use a trade secret commercially for a prolonged period and thereafter obtain a patent is contrary to the patent law.

In any event, the patent statutes do not express any preemption doctrine as to trade secrets, much less one

that applies to some secrets and not to others. Any effort to confine preemption to once-patentable inventions leads to the illogical result that an unobvious and therefore patentable trade secret is preempted from trade secret protection by the patent law whereas the less deserving obvious and unpatentable trade secret is not preempted. See 35 USC 103. This would lead to the absurd requirement that a plaintiff needs to show that the secret is trivial and unpatentable in order to prevail in a trade secret case.

The ruling below must stand or fall on whether the patent law preempts common law trade secret protection to inventions generally, not on the nature of the particular trade secrets before the court. As discussed in part I, above, there is no such general preemption.

III.

Finally, the ruling below is unsound as a matter of policy. Whether the law protects the trade secret or not, the owner often can physically maintain the secret. Where the owner cannot bear the expenses of patents and their enforcement, such secrecy can be especially attractive. An opportunity to disclose and to license, based on the quite limited protection afforded by the state laws of trade secrets, benefits both the owner of the secret and the public. Judge Friendly was right in stating that:

> "Rather than having a monopolistic tendency, like the Illinois law involved in *Sears* and *Compco*, the upholding of private agreements for the sharing of trade secrets on mutually acceptable terms tends against the owner's hoarding them." (*Painton* v. *Bourns*, 442 F.(2d) 216, 223 (2d Cir., 1971)).

An unbroken line of decisions in the one hundred and eighty-three years since the 1790 Patent Act has recognized the benefits of protecting trade secrets and has given narrow and limited protection to trade secrets—implicity denying any federal preemption. Surely, this is not the time to upset an uncountable number of business decisions and agreements based on this established law.

The judgment below should be reversed.

Respectfully submitted,

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OCTOBER TERM, 1973

No. 73–187

KEWANEE OIL COMPANY,

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versus

BICRON CORPORATION, et al.

Respondents

BRIEF OF SOUTHWIRE COMPANY AS AMICUS CURIAE

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BRIEF OF SOUTHWIRE COMPANY AS AMICUS CURIAE

This brief is submitted with the written consent of all parties to the case.

INTEREST OF AMICUS CURIAE

Southwire Company, the *Amicus Curiae,* has a significant research and development effort in terms of both manpower and financial expenditure. Southwire Company has extensively licensed patented and unpatented developments both within and without the United States. Further, Southwire has in the past, and needs in the future, to rely upon numerous

confidentiality agreements with both its employees and licensees. Southwire believes that the practical economic impact of this decision was not understood by the Sixth Circuit, that the practical economic impact was not pointed out to that court by the Parties, and that there is great danger that the practical economic impact of this case will not be presented to this Court by the Parties.

ARGUMENT

Southwire Company (herein called Southwire) believes that the hard legal issues raised by this case *will* be presented adequately to the Court by others. However, a few legal points concerning the economic impact are noteworthy here.

The enforceability of contracts involving the transfer of confidential information has been upheld in this Country, by this Court, at least since *Fowler v. Park*, 131 U. S. 88 (1889). These contracts have become so numerous and involve such fantastic financial commitments by American industry in reliance upon almost a century of case law supporting their validity that any change in the law should properly come from the Congress, not from the Courts. The Congress alone, among the governmental entities, has both the power and the investigative resources to evaluate fully the practical economic impact of trade secret law and the need for, or desirability of, changing almost a century of precedent.

An interesting contrast in the treatment of trade secret law and confidentiality agreements is presented by three recent decisions of the Sixth Circuit. In *United States v. Greenwald*, No. 72-2117 (6th Cir. June 1, 1973) the court upheld Greenwald's conviction for transportation of stolen property in interstate commerce. The "property" in question was a "secret chemical formula". The court had no trouble in finding that unpatented trade secrets are assets. *Greenwald* is totally incon-

sistent with *Kewanee Oil Company v. Bicron Corporation, et al,* Nos. 71-1041, 71-1042 (6th Cir. May 10, 1973) which was decided a mere three weeks earlier by the same court. Two weeks after *Greenwald,* the Sixth Circuit decided *Screw Machine Tool Company v. Slater Tool and Engineering Corporation, et al,* No. 72-1950 (6th Cir. June 15, 1973), which held uncopyrighted matter could not be copied if the result would be unfair competition. The defendant was found in contempt of court in *Screw Machine Tool.* Thus the Sixth Circuit appears to be saying that if a confidence is betrayed, it may constitute a crime, or it may constitute contempt of a court order, but there is no *civil* remedy. If the policy in favor of upholding confidences is strong enough that betrayal of a confidence is a crime, it appears that one of the most powerful forces for enforcing confidences—a private civil action—should not be denied as it was in *Kewanee.*

The Sixth Circuit failed completely, as evidenced by its opinion, to understand the practical economic significance of its *Kewanee* decision. Southwire is a relatively small company, but it has a significant research and development effort. Southwire now owns some sixty-one United States patents and over three hundred foreign patents and has over forty-eight pending United States patent applications. In addition to the patents and patent applications, Southwire has developed significant trade secrets or "know-how". The development and licensing of patents and know-how contribute heavily to Southwire's viability as a competitor of the giant nonferrous metal companies both in the United States and abroad. Southwire now has in force technology licensing agreements with nine U. S. companies involving a gross amount of $6,140,000, and with sixteen foreign companies involving a gross amount of $14,440,000. Each of the license agreements involves the transfer of trade secrets as a significant portion thereof. No matter what the formal words of the particular agreement

specify, what foreigners are most interested in buying is our know-how, and not our patents. Patents alone are rarely saleable. Southwire has relied, and must continue to rely, upon the enforceability of confidentiality agreements to continue its research and development program. If a competitor could hire a Southwire employee, and that employee could divulge with impunity any Southwire trade secret over one year old, our research program could not possibly pay for itself. Southwire would become, in effect, a development agency for its competitors. Millions of dollars of revenue would be lost to Southwire. Also, foreign licensing would, as a practical matter, become impossible. What foreign company would take a license for trade secrets that it could obtain by simply hiring a Southwire employee? The United States' balance of payments would continually deteriorate if foreign licensing of unpatented technology became impracticable. Worse still, research and development within the United States would be drastically decreased. What company could afford to spend millions on development just to have its competitors obtain the benefits of that development without spending the time and money normally required? A research oriented company, instead of maintaining a competitive advantage, would suddenly find itself at a competitive disadvantage. Significant research and development within the United States would stop. Thereafter, in order to be competitive in a world market, United States companies would be forced to buy technology from abroad—if any foreign companies would license within the United States, because United States entities could not enforce confidentiality.

The practical impact of the Sixth Circuit's *Kewanee* decision could not have been thoroughly considered by that court. The potential for economic harm to the Country as a whole is unparalleled. Southwire is but one company. Magnify the impact upon Southwire and project the impact upon the national economy, and it becomes abundantly clear that

billions or hundreds of billions of dollars annually could be involved. This Court should reverse the Sixth Circuit and defer to the Congress any changes in a century of precedent on an issue with such a momentus potential impact upon this Nation.

CONCLUSION

For the foregoing reasons, *Amicus Curiae*, Southwire Company, respectfully requests that this Court reverse the court below.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that copies of this Brief were served upon the Parties through their attorneys of record in accordance with Rule 33 of the Supreme Court of the United States, revised rules, on November 21, 1973.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

v.

BICRON CORPORATION, et al.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF *AMICUS CURIAE* FOR BURROUGHS CORPORATION

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BRIEF *AMICUS CURIAE* FOR BURROUGHS CORPORATION

PRELIMINARY STATEMENT

Burroughs Corporation (hereinafter Burroughs) is filing this brief *amicus curiae* on the merits in support of the petitioner, Kewanee Oil Company, pursuant to Rule 42(2) of the Rules of the Supreme Court of the United States. The requisite written consents of the parties are on file with the Clerk of the Court. The matter is before the Court on a writ of certiorari to the United States Court of Appeals for the Sixth Circuit which reversed the decision of the District Court for the Northern District of Ohio, Eastern Division, and which held that Kewanee Oil Company did not have a protectable property right in certain of its trade secrets.[1]

[1] *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 178 U.S.P.Q. 3 (6th Cir. 1973). The District Court decision was not reported.

QUESTIONS PRESENTED

1. Whether the U.S. Constitution and the federal patent laws enacted thereunder preempt state trade secret law prohibiting the wrongful appropriation of secret technology to the extent it is encompassed within the categories of patentable subject matter as defined in 35 U.S.C. § 101.

2. Whether such state trade secret laws are in conflict with the policies and objectives underlying the federal patent laws and are therefore required to be struck down under the Supremacy Clause of the U.S. Constitution even though Congress did not express an intent to preempt such trade secret laws when enacting the federal patent laws.

INTEREST OF *AMICUS CURIAE*

Burroughs was incorporated in 1905, and is engaged in the business of designing, manufacturing and marketing a comprehensive range of products for the recording, storing, computing, processing and communicating of data. This business involves a wide variety of research and development efforts since success in this dynamic industry depends upon innovation, invention and technological growth. Burroughs, including its world-wide subsidiaries, has considerable investments in manpower and capital devoted to the promotion of technological development. Approximately 1800 employees are involved directly in research and development related activities and many thousands of additional employees are exposed in some manner to proprietary information.

For the year which ended December 31, 1972, the dollar value of Burroughs' world-wide revenue amounted to $1,053,000,000. For this same year approximately 51 million dollars was spent on research and development related activities. For the current year over 60 million dollars will be spent for research and development, and over 80 million dollars is being budgeted for the year 1974. Burroughs has invested hundreds of millions of dollars in research and development activities and will continue to invest in research and development in the future. In order to protect this investment, Burroughs has relied not only on the patent laws, but also on the law of trade secrets. Accordingly, Burroughs is interested in maintaining the trade secret laws intact to protect both past and future investments.

Burroughs is not currently involved in any action in which it is asserting the theft of its trade secrets, and it is not in any way affiliated with either of the parties to this particular action. However, Burroughs has a deep interest in the proper resolution of the legal questions presented in this case not only because of the impact the decision below will have upon Burroughs, but also because of the impact it will have upon all technology-oriented businesses, upon the economy, and upon the United States as a whole.

SUMMARY OF ARGUMENT

The decision below, which refused to afford protection under the trade secret law of the state of Ohio, erodes a vast body of trade secret law which has coexisted with the patent laws of this country for well over a hundred years. Congress, prior decisions of this Court and decisions in other courts have unanimously recognized trade secrets and the owner's right to protect such secrets from wrongful appropriation. The decision below is extremely broad because it encompasses all categories of subject matter coming within the scope of the patent laws, and because nearly every trade secret of any value is eventually commercialized. Many agreements involving trade secrets were entered into in reliance upon established trade secret law. The decision below renders uncertain this body of law and the enforceability of these agreements.

Technology-oriented industries investing in research and development activities require an assurance of some return on their investment. The preemption of state trade secret laws removes a large portion of the protection upon which they have previously relied. The inability to safeguard these investments may lead to a cutback in research and development investments or to a misallocation of research and development funds by redirecting expenditures to security measures aimed at protecting their discoveries. Such a cutback may weaken the technological base of the United States, injure its economy, and destroy its position as the world's technological leader.

The power to enact laws prohibiting the misappropriation of secret technological information was neither delegated to the federal government for its exclusive use nor was it expressly denied the states by the U.S. Constitu-

tion. The existence of such a power in the states is not contradictory and repugnant to the existence of a similar power in the federal government.

Congress, in enacting the federal patent laws, gave no indication, either express or implied, of an intent to preempt the entire field of law relating to inventions and discoveries. Congress, on numerous occasions, has expressed a contrary intent by recognizing the existence of trade secrets and the importance of protecting them.

State trade secret laws are not in conflict with the policies and objectives underlying the federal patent laws and hence are not required to be struck down under the Supremacy Clause of the Constitution. The federal patent laws provide the inventor with a right to exclude all others from making, using and selling his invention for a limited period of time. Trade secret law, on the other hand, offers a desirable alternative even though it provides only a very limited form of protection to the trade secret owner. He has no right to exclude all others from using his trade secrets but only has a cause of action against one who has wrongfully appropriated his secret. In practice, the patent laws operate to stimulate research and development, encourage innovation, reward the inventor, and benefit the public through commercialization of new and improved products. State trade secret laws have similar practical effects and are compatible with the constitutional purpose of promoting the progress of science and the useful arts.

The court below erred in its assumption that its result was compelled by prior decisions of this Court. According to these prior decisions, all ideas which are in the public domain are subject to free use by all, and states may not grant a patent-like form of protection on an idea

in the public domain. Existing trade secret law is in complete harmony with the prior decisions of this Court, since trade secret protection is not granted for an alleged secret which has fallen into the public domain.

ARGUMENT

I.

THE *KEWANEE* HOLDING PLACES AN UNDUE BURDEN ON TECHNOLOGY-ORIENTED INDUSTRIES.

A. The Decision Below Usurps The Power Of Congress And Judicially Legislates Away A Vast Body Of Existing Trade Secret Law.

Trade secret laws have been recognized by Congress, the states and the courts. The lower court has acknowledged that the common law in most states includes cases recognizing the protectability of trade secrets.[2] The lower court further acknowledges that this Court has approved the protection of a trade secret, if not as a property right, then at least via the enforcement of confidential relationships.[3] Congress has recognized the existence of trade secrets, the right to protect trade secrets, and impliedly,

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[2] "Without the numerous citations of cases we suggest that instances of protection of trade secrets by the courts may be found in most of the states of the United States." *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1081, 178 U.S.P.Q. 3, 8 (6th Cir. 1973).

[3] "In DuPont Powder Co. v. Masland, 244 U.S. 100, 375 S. Ct. 575, 61 L. Ed. 1016, the Supreme Court of the United States approved protection of a trade secret." *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1081, 178 U.S.P.Q. 3, 8 (6th Cir. 1973). See also *Becher v. Contoure Laboratories, Inc.*, 279 U.S. 388 (1929); *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236 (1905); and *United States v. Dublier Condenser Corp.*, 289 U.S. 178 (1933).

the ability of trade secret laws and the federal patent laws to function effectively to protect the same subject matter. This congressional recognition is evidenced, for example, by the ratification of several treaties[4] and the enactment of numerous legislative acts[5] which expressly recognize trade secrets. Since 1965, many states have enacted criminal laws dealing with the misappropriation of trade secrets.[6] Further, as acknowledged by the lower court, its deci-

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[4] The following treaties recognize the existence of trade secrets:

Agreement with Belgium on Patent Rights and Technical Information, Oct. 12, 1954, [1954] 5 U.S.T. 2318, T.I.A.S. 3093;

Agreement with Denmark on Patent Rights and Technical Information, Feb. 19, 1960, [1960] 11 U.S.T. 148, T.I.A.S. 4423;

Agreement with Federal Republic of Germany on Patent Rights and Technical Information, Jan. 4, 1956, [1956] 7 U.S.T. 45, T.I.A.S. 3478;

Agreement with France on Patent Rights and Technical Information, March 12, 1957, [1957] 8 U.S.T. 353, T.I.A.S. 3782;

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[5] Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U. L.Rev. 17, 32, n. 67 (1971).

[6] R. M. Milgrim, Trade Secrets, § 1.10[1] (1973).

sion is in direct conflict with the law in other circuits.[7] These laws represent a vast and fairly uniform system of trade secret law presently existing in the United States.

Billions of dollars are invested annually in research and development activities.[8] While it is true that patents are available to protect a portion of the resultant technology, there still remains a substantial portion of valuable information, data and know-how which can only be protected under state trade secret laws. It may be argued that a considerable body of trade secret law is still available to protect this resultant technology since the court below found that " . . . the trade secrets in question relating to the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable', that is, appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101".[9] *Kewanee Oil Co. v. Bicron Corp.*, 478 F2d 1074, 1078, 178

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[7] "We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits, Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), cert. den. 383 U.S. 934, 86 S.Ct. 1061, 15 L.Ed. 2d 851 (1966), rehearing denied 384 U.S. 914, 86 S.Ct. 1333, 16 L.Ed. 2d 366 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), cert. den, 402 U.S. 945, 91 S.Ct. 1621, 29 L.Ed. 2d 113 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971). . . ." *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1086, 178 U.S.P.Q. 3, 12 (6th Cir. 1973).

[8] A recent survey of the R&D industry predicts a total research and development expenditure for the current fiscal year, 1973, in excess of $31 billion. Plant, *$31-Billion for Research*, Ind. Res. 42 (Jan. 1973).

[9] 35 U.S.C. §101 (1952) defines the categories of subject matter which come within the jurisdiction of the federal patent laws as follows: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." These statutory categories are broadly construed and most of the fruits of today's research and development efforts are encompassed within this broad definition.

U.S.P.Q. 3, 5 (6th Cir. 1973). While the court below seemed to consider this limitation to be a substantial narrowing of the range of trade secrets affected by its decision, such is not the case since most trade secrets in existence today deal with technological information relating to a process, machine, article of manufacture or composition of matter and therefore are encompassed within the categories of patentable subject matter as defined in 35 U.S.C. §101 (1952). Many trade secrets that are encompassed within the categories of patentable subject matter would not successfully pass examination[10] by the United States Patent Office and issue as valid and enforceable patents. However, the lower court did not limit the impact of its decision to only those trade secrets that could pass such an examination.

Even if the lower court's decision can be construed to limit its effect to only those trade secrets that could pass such an examination, the ambiguities inherent in the decision below pose many unanswered questions. Who is qualified to answer the difficult question of whether or not a given trade secret could pass the examination? Must the proprietor file a patent application in order to have an already overburdened United States Patent Office make this determination? If a patent application must be filed, at what point in the prosecution of a patent application may an applicant accept the Patent Office's determination that the subject matter is unpatentable and seek protection via

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[10] One of the usual tests applied during the examination of patent applications by the U.S. Patent Office is the so-called "obviousness" test as defined in 35 U.S.C. §103 (1952): "A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

state trade secret laws? If the Patent Office initially rejects the application, is the applicant free to assume that the subject matter was not patentable and therefore proceed as though it was protectable as a trade secret? Must the applicant prosecute the application through a final action; through a decision from the Board of Appeals; through a decision from the Court of Customs and Patent Appeals or appropriate district court; or must he prosecute through an appeal to this Court? How many inventors, or employers for that matter, will have the necessary time and funds to follow this procedure, and even if they were financially able, should they be required to do so? If the proprietor of a trade secret has not filed a patent application and brings an action in the state courts, should the state court be given the responsibility of determining whether or not the trade secret would have passed the examination of the United States Patent Office? These unanswered questions are so substantial that the practical effect of even a limited, narrow construction of the lower court's decision would be to deny industry the ability to depend upon the state laws for the protection of trade secrets.

It may also be argued that the lower court tried to further narrow its decision by limiting it to only those trade secrets which have been in commercial use[11] for more than

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[11] 35 U.S.C. §102 (1952) provides that "A person shall be entitled to a patent unless—

. . . .

(b) . . . the invention was . . . in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, ..."

This provision in the federal patent laws prevents an inventor from maintaining his invention as a trade secret while commercializing it for more than one year and then filing a patent application if he believes his secret will be discovered or for any other reason. This provision gives the inventor who commercializes his invention one year during which he must elect either to seek patent protection or to forego his rights under the federal patent laws.

one year prior to the commencement of the suit. The proprietor of a trade secret normally intends to recoup his research and development expenses by commercially exploiting his innovation through his own use or that of his licensee. Accordingly, most trade secrets of any value will eventually be put into commercial use, and come within the scope of the decision below after the lapse of one year. Limiting the time for recouping research and development investment to one year would substantially erode the value of the trade secret laws. Therefore, this second attempt by the lower court to narrow the effect of the decision is also ineffective for most practical business situations.

If the far-reaching changes made by the lower court are in fact required, Congress is the proper body to effect such changes. This Court has recently considered the decision of a lower court which would have had a great impact upon the protection of proprietary rights in a complex technological field and concluded: ". . . considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by the Congress is needed." *Gottschalk v. Benson,* 409 U.S. 63. 74 (1972).

B. The Decision Below And Its Accompanying Penumbra Of Uncertainty Will Have A Severe Impact Upon Business Activities And Will Operate To Hinder The Progress Of Science And Technology.

All technology-oriented corporations with world-wide interests are immediately and directly affected by the decision below. Burroughs, for example, is currently a party to many existing agreements involving the protection of proprietary information, but the validity of these agreements has been cast in doubt by the decision below.

The types of business agreements relating to proprietary information are many and varied. Most technology-oriented business organizations offer some type of agreement regarding employment to at least their technical personnel. In a typical agreement, an employee who is exposed to trade secret or confidential information, or who is hired to invent or improve products, agrees not to disclose proprietary information acquired on a confidential basis without the permission of the employer. Frequently he also agrees to assign his inventions and ideas to his employer who supports his inventive efforts. Increased compensation, technical training and opportunities for advancement within the business organization provide the *quid pro quo* for the employee's agreement.

Many provisions of these agreements may be unenforceable under the decision below which permitted the employees to leave the company from which they had acquired proprietary trade secret information on a confidential basis during the course of their employment and to immediately set up their own corporation founded on these misappropriated secrets in direct competition with

their former employer. The lower court ruled that state trade secret law could not be used to stop such piracy and appeared to imply that this served a higher good associated with the concept of free competition. The decision below is more likely to have the opposite effect. The inability to protect technology and to secure a return on research and development investments, will likely result in the diminution of a prime economic incentive for research and innovation and may eventually lead to a cutback in research and development expenditures or to a misallocation of available resources by redirecting expenditures to security measures designed to guard self-developed technology. As security within the business organization is tightened, the dissemination of technology within the organization will be restricted resulting in inefficiency and a slow-down in the rate of technological progress. This cannot further free competition, but clearly will serve instead to hinder the progress of science and the useful arts.

Another area of uncertainty fostered by the decision below is in the numerous technology-oriented business organizations which employ trade secret-type agreements in vendor-vendee situations. These organizations frequently have suppliers build sub-assemblies or devices in accordance with the organization's proprietary information and contractually obligate the supplier and his employees to protect the organization's proprietary information. Under the decision below, the supplier and his employees are free to use the secret information to make and sell devices to others, or even to sell the valuable and costly information to the organization's competitors. It would appear that only large corporations capable of fulfilling all of their needs in-house would be able to effectively compete since they would not be forced to rely on others for sup-

plying the necessary parts or sub-assemblies for their products. However, even the large, self-sufficient corporations are effected by the risk that the corporation's employees will steal its trade secrets.[12]

Similarly, it may be noted that as a result of many of today's complicated technical systems, field tests must be conducted by customers, or at the customer's location. If such tests cannot be conducted on a confidential basis, competitors may acquire test data and other proprietary information without restriction.

KNOW-HOW LICENSES

Many technology-oriented business organizations are operating today under trade secret agreements or know-how licenses. Billions of dollars in royalty payments are paid and received for such licenses annually.[13] Indeed, such licenses often form the only source of income for small research and development oriented businesses. Under the decision below, businesses receiving royalty payments under such licenses may not be able to collect even

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[12] International Business Machines Corp. has proven damages resulting from the theft of its trade secrets by its former employees and has been awarded $21.9 million on that basis in a recent decision. *Telex Corp. v. International Business Machines Corp.*, Nos. 72-C-18 and 72-C-89 (D.C.N.D. Okla., Sept. 17, 1973).

[13] United States business organizations received from abroad some $3.1 billion in royalty payments and paid to foreign organizations some $276 million in royalty payments for the year 1972. 53 U.S. Dept. of Commerce, Survey of Current Business 42, No. 9, September 1973. While the entire amount is not attributable to trade secret licenses, a considerable portion is, and furthermore, this figure relates only to foreign licenses. It can be assumed that a much larger dollar amount is involved in licenses between United States business organizations.

after costly and extended litigation. Companies which are obligated to make royalty payments under such agreements may refuse to pay and may choose to destroy the license and the existence of the trade secret by publicly disclosing the trade secrets themselves. Finally, there is a substantial risk that a prospective licensee will be less inclined to take a royalty bearing license under a trade secret so long as the less costly opportunity exists for hiring one or more of the licensor's employees who are in possession of such trade secrets. Alternatively, a prospective licensee may find it easier and less expensive to simply steal the trade secret.

COMPUTER PROGRAMS

Computer programs or software represent a considerable portion of the total cost of a computer system and any given program represents a substantial investment of time and capital. Many computer corporations and small businesses specializing in developing computer programs have elected to market their programs under an agreement licensing the customers' use and limiting the dissemination of the programs. This Court in *Gottschalk v. Benson,* 409 U.S. 63 (1972), held that a computer program directed to a mathematical algorithm could not be patented where the effect of the patent would be to cover all practical uses of the mathematical algorithm itself. This would take certain computer programs out from under the scope of the decision below since they are not encompassed within the category of patentable subject matter defined by 35 U.S.C. § 101 (1952). However, the dividing line between those types of programs that are not patentable and those that should be patentable has not yet

been established by Congress in accordance with the recommendation of this Court in *Gottschalk v. Benson*. Until such time as Congress acts, many businesses which rely upon trade secret protection will have to continue their practice with respect to both types of programs even though only some programs would be protectable as a result of the decision below. If such programs can be disseminated or misused with impunity, many businesses, which depend on such programs for a significant portion of their income, will suffer an impairment of their ability to compete, and the amount of competition in the computer industry will be even further reduced.

NATIONAL ASSET

Many businesses have competitors in foreign countries and will be impacted by the international aspects of the decision below. The inability to stop the theft of trade secrets and to control the flow of technical information leaving this country could ultimately lead to a substantial weakening of our position as the world's technological leader. United States companies have billions of dollars invested in research and development activities[14] and license their resulting technology to others or are licensed under another's technology. The ability to license existing domestic technology in foreign countries constitutes a vast national asset. Foreign corporations will have a reduced incentive to take licenses under U. S. technology on a royalty bearing basis since it will be far easier and less expensive to merely hire another's trusted employees or otherwise misappropriate the desired trade

[14] Plant, *supra* note 8, at 8.

secrets.[15] The decision below results in a lessening of the value of this asset with corresponding detrimental effects upon the competitive position of the United States in markets throughout the world, upon our already strained balance of payments,[16] and upon the very health and vitality of our American economy.

Further, foreign corporations may refuse to license domestic corporations because the domestic corporations cannot guarantee the security of the trade secret and, once the security is breached, the trade secret is lost. The inability of domestic corporations to secure technology from abroad further operates to stifle technological growth and development and to hinder the progress of science and the useful arts.

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[15] Even with the current availability of trade secret protection, foreign corporations have been implicated in the misappropriation of trade secrets valued at millions of dollars; for example, a recent theft of trade secrets from the Ford Motor Company related to glass manufacturing techniques valued at over a million dollars. *United States v. Akfirat*, No. 4-80300 (D.C.E.D. Mich., filed August 30, 1973).

[16] Since the yearly revenue received from licensing foreign businesses under domestic technology exceeds $3.1 billion, while the outflow of royalties paid by domestic organizations for foreign technology is only $276 million, the total loss to the American economy could exceed $2.8 billion. 53 U.S. Dept. of Commerce, Survey of Current Business 42, No. 9, September, 1973. Compensating for the proportion of this amount attributable to patent and trademark royalties, we may reasonably conclude that over $1.5 billion are lost to the American economy. Milgrim, *Sears to Lear to Painton: Of Whales And Other Matters*, 46 N.Y.U. L. Rev. 17, 26, n. 40 (1971).

OTHER POLICY CONSIDERATIONS

There is justifiable concern over the possible effect of this decision on state and federal criminal laws dealing with the theft of trade secrets. This decision affects the determination of what is protectible as a trade secret, and it may be that such laws could be rendered void for vagueness or preempted by the policy behind the federal patent laws. The decision of the lower court has already been cited in a recent criminal action brought in the State of Michigan[17] in which the defendant is being prosecuted under the Michigan trade secret theft statute, CL 1970, § 752.772.[18] The defendant in that case moved for dismissal of the complaint against him, urging that the statute was void because it conflicts with the patent laws of the United States.

The type of permissiveness encouraged by the decision below may lead to a further deterioration in commercial morality, to a lessening of a citizen's obligation to respect the property rights of others, and to a possible substitution of trade secret thievery in place of legitimate research and development efforts. A corporation which attempts to operate in this environment will find itself at a commercial disadvantage if its competitors are free to deal

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[17] *People v. Hull*, No. 2610 (Troy Mun. Ct., filed March 30, 1973).

[18] Mich. C.L. 1970, §752.772 provides: "Any person who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his own use or to the use of another, steals or embezzles an article representing a trade secret or without authority makes or causes to be made a copy of an article representing a trade secret, is guilty of a misdemeanor and shall be fined not more than $1,000.00 or imprisoned for not more than 1 year, or both."

in trade secret thievery and in that brand of "instant technology" which is achieved by hiring another's trusted employee and using the proprietary knowledge which the employee gained through his position of confidence and trust.

II.

THE U.S. CONSTITUTION DOES NOT PROHIBIT THE STATES FROM ENACTING LEGISLATION PROTECTING TRADE SECRETS; SUCH LEGISLATION WAS NOT PREEMPTED WHEN CONGRESS ENACTED THE FEDERAL PATENT LAWS; AND TRADE SECRET LAWS DO NOT CONFLICT WITH THE POLICIES AND OBJECTIVES UNDERLYING THE FEDERAL PATENT LAWS.

A. The States Have Not, Under The U.S. Constitution, Relinquished To The Federal Government, For Its Exclusive Exercise, The Power To Enact Laws Affecting Inventions And Innovations.

In *Goldstein v. California*, 412 U.S. 546 (1973), which was decided after the decision of the lower court in this action, this Court enunciated the test to be applied in resolving the preemption issue. *Goldstein* is particularly pertinent since it involved U. S. Const. art. I, § 8, cl. 8,[19] the very constitutional clause involved in the present case.

A state statute proscribing tape piracy was challenged in *Goldstein* as violative of U. S. Const. art. I, § 8, cl. 8 and of the federal statutes enacted thereunder. This Court held that this clause does not expressly or by inference vest all power to grant copyright protection exclusively in the federal government, nor did the state statute

[19] "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;" U.S. Const. art. I, § 8, cl. 8.

conflict with the federal copyright laws so as to fall under the Supremacy Clause[20] of the U. S. Constitution.[21]

Initially, this Court inquired as to whether the state statutes were beyond the powers which the states reserved in our federal system.[22] If the states have relinquished such powers to the federal government for its exclusive exercise, they cannot exercise these powers.[23] This Court, in *Goldstein,* applied the three tests of Alexander Hamilton which pronounced that the states retain all rights and powers unless (1) the Constitution expressly grants an exclusive authority to the federal government; (2) the Constitution grants a particular power to the federal government and simultaneously prohibits the exercise of a similar power by the states; or (3) it grants a power to the federal government to which a similar power in the states would be absolutely and totally contradictory and repugnant.[24]

While the lower court in the present case did not have the opportunity to apply these tests since *Goldstein* was decided after the decision below, it is seemingly appropriate to apply them by analogy to the facts of *Kewanee.* The first two tests present no barrier to the State's enactment of trade secret laws. Art. I, §8, cl. 8 of the U.S.

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[20] "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding." U.S. Const. art. VI, cl. 2.

[21] *Goldstein v. California,* 412 U.S. 546, 571 (1973).

[22] *Id.* at 552.

[23] *Id.*

[24] *Id.*

Constitution, granting to Congress the power to grant patents for certain inventions and innovations, does not expressly provide that such powers shall vest exclusively in the federal government nor does the U. S. Constitution expressly provide that such power shall not be exercised by the state.[25] The third test requires examination of the manner in which the power to grant patents operates in our federal system.[26] Specifically, it requires the examination of the differences between those situations in which the exercise of the power by the federal government and the states, or by the states alone, may possibly lead to conflicts, and those situations where conflicts will necessarily arise.[27] This Court specifically stated that "'It is not . . . a mere possibility of inconvenience in the exercise of powers, but an immediate constitutional repugnancy that can by implication alienate and extinguish a pre-existing right of [state] sovereignty.' The Federalist, No. 32, at 243." *Goldstein v. California,* 412 U.S. 546, 554 (1973).

Art. I, §8, cl. 8 of the U. S. Constitution has as its objective the promotion of the progress of science and the useful arts.[28] One objective of this clause was clearly to facilitate the granting of rights national in scope, but, as recognized in *Goldstein,* the fact that this clause recognized the potential benefits of a national system does not indicate that all discoveries of inventors are of national interest or that state legislation is, in all cases, unneces-

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[25] *Id.* at 553.

[26] *Id.*

[27] *Id.* at 554.

[28] *Id.* at 555.

sary or precluded.[29] The patents granted by the states in the 18th century show, to the contrary, a willingness on the part of the states to promote those portions of science and the arts which were of local importance.[30] Since the subject matter to which this clause is addressed may be of purely local importance and not worthy of national attention or protection, there can be no unyielding national interest which requires an inference that state power to legislate in related areas has been relinquished to exclusive federal control.[31]

The exercise of the power by one state to enact trade secret laws which may involve patentable subject matter will not prejudice the interest of other states.[32] This Court in *Goldstein* held that a state copyright law no more prejudiced the interest of other states than other state monopolies, such as park concessions or lotteries.[33] Accordingly, by analogy, existing trade secret laws of one state do not prejudice the interest of other states. Further the trade secret laws of each state will serve to stimulate invention and innovation within each state and, hence, promote the progress of science and the useful arts—the very objective of the constitutional grant.[34]

The concurrent exercise of powers affecting inventions and innovations by both Congress and the states will not necessarily and inevitably lead to difficulty[35] and, if difficulties do arise, Congress remains free to eschew all such

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[29] *Id.* at 556.

[30] *Id.* at 557.

[31] *Id.* at 558.

[32] *Id.*

[33] *Id.*

[34] *Id.*

[35] *Id.* at 559.

protection.[36] Since all of these tests have been satisfied, it is reasonable to conclude that the states have not relinquished to the federal government all power to enact trade secret laws involving the protection of inventions or discoveries.[37]

B. The Vast Body Of Existing State Trade Secret Law Was Neither Expressly Nor Impliedly Preempted By Congress In Enacting The Federal Patent Laws.

While it is possible for Congress to expressly or impliedly preempt state trade secret laws, Congress has given no express indication of an intent to preempt the vast body of pre-existing and long-established state laws relating to trade secrets.[38] Further, Congress has not implied that the federal patent laws preempt the state trade secret laws, since it has enacted legislation both before and after the enactment of the patent laws which expressly recognizes the existence of trade secrets and the importance of protecting them.[39] Indeed, the patent laws themselves show some evidence of an intent to protect trade secrets by providing that pending patent applications

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[36] *Id.*

[37] *Id.* at 560.

[38] While it does not offer positive proof, it is interesting to consider that no one has pointed to a single indication of an express congressional intent to preempt; that several proposed revisions to the patent laws containing preemption provisions have failed to pass; and that the most recent proposed patent law revision, yhich has full Administration support, contains an express provision specifying that the patent laws do not preempt rights or obligations arising by operation of state laws concerning trade secrets. S. 2504, 93d Cong., 1st Sess. §301 (1973).

[39] Milgrim, *supra* note 5 at 7.

be preserved in secrecy[40] thereby preserving the applicant's right to trade secret protection pending publication of the issued patent.[41]

C. State Trade Secret Laws Do Not Stand As An Obstacle To The Accomplishment And Execution Of The Full Purposes And Objectives Of Congress In Enacting The Patent Laws And Hence Are Not To Be Struck Down Under The Supremecy Clause.

The purpose behind U. S. Const. art. I, §8, cl. 8 is to promote the progress of science and the useful arts. The federal patent laws represent the means enacted by Congress for achieving this end. The patent laws grant to an inventor the right to exclude all others from making, using and selling his invention for a period of seventeen years in exchange for the dedication of his invention to the public upon the expiration of the patent. The patent laws provide the inventor with the broad right to exclude all others from the practice of his invention for the term of the patent. State trade secret laws, on the other hand, provide no such exclusionary rights. The owner of a trade secret only has a cause of action against those who

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[40] 35 U.S.C. §122 (1952) provides as follows: "Applications for patents shall be kept in confidence by the Patent Office and no information concerning the same given without authority of applicant or owner unless necessary to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner." Rule 14(a) of the United States Patent Office Rules of Practice, which was promulgated under 35 U.S.C. §122 (1952), provides that pending applications be preserved in secrecy.

[41] It may also be interesting to note that the United States Court of Appeals for the Second Circuit held in *United States v. Bottone*, 365 F.2d 389 (2d Cir.) *cert. denied* 385 U.S. 974 (1966), that Congressional intent requires that the Federal Stolen Property Act, 18 U.S.C. § 2314 (1968), be made applicable to the theft of trade secrets. See also *United States v. Greenwald*, 479 F.2d 320 (6th Cir. 1973).

would steal his secret or use it in such a manner so as to breach a confidential relationship. The trade secret owner cannot prevent any person from practicing the same trade secret if such person independently develops it or discovers it through legitimate means. Should the trade secret become public, the whole world is free to use it. In order to protect his secret, the owner must take measures to ensure that the secret is in fact maintained in secrecy and he is not aided by the presumption of validity which accompanies the issuance of a patent. The nature and scope of the protection afforded under state trade secret laws are different from the nature and scope of the protection afforded under the patent laws. The practical results sought to be achieved by the patent laws are not frustrated by the effect of state trade secret laws. The patent laws encourage research and development efforts, stimulate invention and innovation, reward inventors and innovators, and benefit the public through the commercialization of new and improved products by the owner or by his licensee. The enforcement of state trade secret laws similarly benefits the public and produces results which are compatible with the overall primary purpose and objective of promoting the progress of science and the useful arts.

In summary, the state has the power to enact trade secret laws which affect inventions and discoveries, and neither the United States Constitution nor the patent laws enacted by Congress preempt state trade secret laws; nor do such laws conflict with the policies and objectives underlying the patent laws so as to be struck down under the Supremacy Clause of the Constitution. The two systems offer alternative types of protection differing in nature and scope, but achieve practical results which are compatible with one another—both operating to promote the progress of science and the useful arts.

III.

THE COURT BELOW ERRONEOUSLY CONCLUDED THAT ITS RESULT WAS COMPELLED BY PRIOR DECISIONS OF THIS COURT.

The decision below rests precariously on the assumption that its result was "compelled"[42] by the preemption doctrine enunciated in prior decisions of this Court. One of the earliest cases relied on by the court below was *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938), which involved a suit by the National Biscuit Company against Kellogg for alleged unfair competition. National Biscuit charged that Kellogg's use of the term "Shredded Wheat" and the use of the pillow-shaped biscuit amounted to both a violation of National Biscuit's trademark and a wrongful "passing-off" under state unfair competition laws. National Biscuit was the successor in title to the original shredded wheat patents which had expired. This Court found that the term "shredded wheat" was generic and that the shape of the biscuit was functional. The basic issue was whether the law of unfair competition could be used to exclude anyone from practicing the teachings of an expired patent. This Court held that such use of the law of unfair competition was in conflict with federal patent policy which permitted the full and free use of all patented ideas upon the expiration of the patent.

Kellogg did not involve trade secrets but dealt with a blatant attempt to extend the term of patent protection beyond the expiration date of the patent and thereby remove from the public domain something which had pre-

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[42] *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1086, 178 U.S.P.Q. 3, 11 (6th Cir. 1973).

viously been in general circulation and had been expressly dedicated to the public in exchange for the grant of a patent. It is well-settled in the law of trade secrets today that no protection may be granted on any idea which has been in general circulation and is in the public domain. Since *Kellogg* involved subject matter which was within the public domain, its holding is completely compatible with existing trade secret law.[43]

The decision below placed even greater reliance upon the two most frequently cited preemption doctrine cases decided by this Court—*Sears Roebuck & Co. v. Stiffel,* 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.,* 376 U.S. 235 (1964). In *Sears,* Stiffel pioneered the development of a pole lamp and obtained a design patent. Sears copied the design of the lamp and began to sell its copies for less than the price offered by Stiffel. Stiffel sued Sears for patent infringement and unfair competition. The lower court held the patent invalid, but allowed recovery under the Illinois law of unfair competition. This Court refused to allow a recovery under that state's unfair competition laws and held that a state cannot grant patent-like protection on an unpatented device which is in the public domain, because to do so conflicts with the policy behind the United States patent laws. *Compco* involved a similar factual situation wherein Compco copied the lighting fixtures developed by Day-Brite. The two cases enunciate a common proposition that the federal law requires that all ideas in general circulation be dedicated to the public, unless they are protected by valid patents.

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[43] R. M. Milgrim, Trade Secrets, § 2.03 (1973) and Restatement of Torts § 757, comment b (1939).

Neither of the above cases involved a trade secret. Both, however, involved an attempt to extend patent-like protection to the design of articles which had been fully disclosed to the public by the sale of a product. Both cases are in accord with existing trade secret law which prevents subject matter within the public domain from being afforded state trade secret protection.[44]

Furthermore, state trade secret laws do not confer a prohibited patent-like form of protection on the owner. Patents convey a broad right to exclude all others from making, using and selling the invention. Trade secret laws afford only a very limited cloak of protection. The owner of a trade secret has no right to exclude all others, but has a cause of action only against a third party who has wrongfully appropriated the secret.

The most recent case upon which the lower court relies for support of its preemption finding is *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969), in which this Court held that a licensee should not be required to pay royalties while challenging the validity of a patent because the enforcement of such contractual provisions would undermine the federal policy favoring the free use of ideas in the public domain. This policy is also in accord with existing trade secret law which categorically denies protection to secrets which have fallen into the public domain.[45]

On the facts of the present case, the trade secrets were not in the public domain. The secrets had been disclosed in confidence to trusted employees who were bound by state law not to disclose these secrets to outsiders nor to use

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[44] *Id.*

[45] *Id.*

these secrets in competition with the rightful owner. These trusted employees left their employer and, as found by the court below, breached their position of confidence; took their employer's trade secrets and used them for their own benefit to the competitive economic detriment of their former employer. The trade secrets had never been dedicated to the public. They had been maintained as secrets and disclosed only on a confidential basis. Therefore, the public had no right to the full and free use of these secrets.

Considering therefore the facts of the present case in light of the prior decisions, it is clear that the decision reached by the lower court is not compelled nor is it supported by the prior decisions of this Court. Hence the enforcement of the state's trade secret laws is compatible with all prior decisions of this Court and the governing state law should have been applied.

CONCLUSION

For the foregoing reasons, *amicus curiae* urges this Court to find that state trade secret laws are not pre-empted by the U. S. Constitution and the federal patent laws enacted thereunder; that state trade secret laws are not in conflict with the policies and objectives underlying the federal patent laws and therefore are not struck down under the Supremacy Clause of the Constitution; and, accordingly, that the decision of the United States Court of Appeals for the Sixth Circuit be reversed.

Respectfully submitted,

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, *et al.*,
Respondents.

BRIEF AMICUS CURIAE FOR THE BUDD COMPANY

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BRIEF AMICUS CURIAE FOR THE BUDD COMPANY

The Budd Company, a Pennsylvania corporation, with an office at 2155 Big Beaver Road, Troy, Michigan 48084, files this brief amicus curiae in support of Petitioner, together with letters of consent from both Petitioner and Respondents.

QUESTIONS PRESENTED

1. Do the Patent Laws of the United States pre-empt subject matter sought to be protected under a state trade secret law?

2. Does failure of an inventor to avail himself of a right under the Patent Laws of the United States destroy his right to protect his invention in other ways including by contracts or trade secrets?

INTEREST OF AMICUS CURIAE

This company has a vital interest in this case because it has its corporate office located in the Sixth Circuit. It engages in activities including export sales, overseas manufacturing and licensing of technology and expertise in 15 foreign countries. It has substantial ownership in five foreign companies, and is licensor to 28 foreign manufacturers, including most of the world's major automotive companies, and has a worldwide network of some 200 distributors.

This company relies heavily on the protection afforded its technological information, including trade secrets, by means of contract. If the opinion of the Sixth Circuit is upheld, the value of technological information conveyed or received as trade secrets by this company, and other companies conducting similar activities would be greatly diminished.

SUMMARY OF ARGUMENT

1. No preemption by the Federal Government should occur with respect to Trade Secrets in the absence of specific Federal Statutes when no preemption has occurred with respect to other forms of Intellectual Property to which both Federal and State Statutes have been directed.

2. An inventor has a right to protect his invention by secrecy if he so chooses. A patent gives him an additional means of protection by granting the right to prevent others from making, using, and selling his invention, but this additional protection is not mandatory. The two rights are entirely distinct. By granting an inventor an additional right, Congress did not intend to deprive an inventor of the right to select the protective means which may be to his best advantage.

ARGUMENT

I.

THE PATENT LAWS OF THE UNITED STATES DO NOT PREEMPT SUBJECT MATTER SOUGHT TO BE PROTECTED UNDER A TRADE SECRET LAW.

A. Three Tests for Preemption

In *Head v. New Mexico Board of Examiners in Optometry*, 374 U.S. 442, 443, 444, Justice Brennan in a concurring opinion applied three settled tests for determining whether federal legislation has displaced state regulation of a given subject matter. Citing *Florida Lime and Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 143, the first test is that the subject matter by its very nature admits only of national supervision. The second test is that there be evidence of congressional intent to occupy the field. The third test is that both State and Federal regulations can be enforced without impairing the federal superintendance of the field.

In applying the first of the aforementioned three tests, it is submitted that the nature of trade secrets is entirely different than patents. Trade secrets have been protectable under state laws for many years and cannot be said to be of such a nature so as to admit only national supervision.

Regarding the second test, in the present case there is no evidence of congressional intent exclusively to occupy the field of trade secrets. In this connection it is unlikely that Congress overlooked the important field of trade secrets in enacting the patent laws.

The third test referred to relates to the fact that both patent and trade secret laws have existed side by side for many years. Because of the rights protectable under the patent and trade secret laws are completely different

there is no conflict therebetween. The federal patent laws do not conflict with state trade secret laws and may be adequately enforced by the Federal Government without interferring with state trade secret laws.

B. Federal and State Governments Are Both in Copyright Field

In *Goldstein v. California*, 93 S.Ct. 2303 (1973), the court was concerned as in the present case with Article 1, Section 8, Clause 8, of the Constitution which provides that the Congress shall have power. . . . "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

The court stated in connection with copyrights and this clause as follows:

> "Since the subject matter to which the copyright clause is addressed may thus be of purely local importance and not worthy of national attention or protection, we cannot discern such an unyielding national interest as to require an inference that state power to grant copyrights has been relinquished to *exclusive* federal control."

It is submitted that an analogy may be drawn between patents and copyrights and that trade secrets are of purely local importance not requiring exclusive federal control.

C. Common Law Rights Of Inventor

Intellectual Property has been defined as, "Those property rights which result from the physical manifestations of original thought."[1]

[1] *Ballentine's Law Dictionary*, Third Edition (The Lawyers Co-Operative Publishing Company, Rochester, New York).

Included as rights to Intellectual Property are patents, Trademarks and Copyrights. Patents, however, is only one of two ways to protect an invention.[2] The common law right of secret property is the other.[3]

It should be noted that while Trademarks and Copyrights have been the subject of both State and Federal Legislation;[4] patents are dealt with under Federal Law, as for example, Title 35 United States Code, and Trade secrets usually by state statutes. See for example, Michigan Compiled Laws Sections 752.771 to 752.773 (1968).

Thus, it becomes apparent that if no preemption has occurred in those areas (Trademarks and Copyrights) of intellectual property rights treated by both Federal and State Statutes, then no preemption should occur where the portion in question (Trade Secrets) of the remaining protected area of Intellectual Property has not been specifically covered by Federal Statute.

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[2]Smith, "*Patent Law, Cases, Comments and Materials*", Page 3.

[3]Id. Page 115.

[4]*Copyrights*
Federal – Title 17 of the United States Code
State – As for example:
California – West's Ann. Cal. Pen Code, §653h.

Trademarks
Federal – Chapter 22, Title 15 of the United States Code.
State – See compilation entitled:
"State Trademark Statutes" by The United States Trademark Association, New York, New York.

II.

INVENTOR HAS A RIGHT TO CHOOSE HOW HE WISHES TO PROTECT HIS INVENTION.

35 U.S.C. 101 states:

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

The wording of this statute by utilizing the word "may", and being directed at the inventor rather than a public official, makes the initiation of the patenting procedure a discretionary rather than mandatory act of the inventor. *Mason, et al. v. Fearson,* 50 U.S. (9 How.) 248, 259; 13 L.Ed. 125; *Levers v. Anderson,* 326 U.S. 219, 223; 90 L.Ed. 26.

Nothing in this statute suggests that an inventor if he elects not to seek a patent must give up whatever common-law rights he has in his property (e.g., his invention), and can personally protect. This court has affirmed that such an election can be made. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178.

If an inventor could not afford the payment of the Patent Office fees and thus was unable to obtain a patent a requirement by the courts that the sole remedy to protect an invention lies under the Patent Laws, would impose a hardship and inequity on such an inventor.

CONCLUSION

The decision of the lower Court should be overruled.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Plaintiff-Petitioner*

v.

BICRON CORPORATION, ET AL., *Defendants-Respondents*

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA AS AMICUS CURIAE IN SUPPORT OF PETITIONER

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On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

---

BRIEF OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA AS AMICUS CURIAE IN SUPPORT OF PETITIONER

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit is reported as *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F.2d 1074 (6th Cir. 1973). By its own order, the opinion of the District Court was not reported. The Sixth Circuit held that the federal patent laws pre-empt the State trade secret law of

Ohio to the extent that Ohio law provides protection to a trade secret which is "an appropriate subject for patent . . . [and] has been used commercially for more than one year.'"[1]

INTEREST OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

The Chamber of Commerce of the United States of America is a national membership association. It includes over thirty-six hundred (3,600) local and State chambers of commerce and trade associations. These State and local chambers, in turn, have an underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The national Chamber's direct business membership numbers in excess of forty-six thousand (46,000) firms.

Many members of the Chamber rely heavily on the protection of trade secret laws. Unless the *Kewanee* decision is reversed, these members stand to lose their valuable trade secrets, including technical know-how, since almost all of these trade secrets, to the extent they are valuable, have been in use for more than one year. The member firms also stand to suffer severe financial loss and erosion of their competitive strength, not only in the United States, but in world markets. Moreover, trade secrets, developed at great expense, will be rendered legally available to others for nothing. The inevitable resulting transmission of the legally available trade secrets to others will occur by acts that offend traditional views of fair competition and business morality.

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[1] 478 F.2d at 1086.

The Chamber of Commerce of the United States of America, as Amicus Curiae, takes no position with regard to the *private* dispute between the parties to this case. The Chamber's concern is solely with the holding of federal pre-emption of Ohio's laws for protection of trade secrets, and the effect this holding would have on the Chamber's members, particularly if the Sixth Circuit decision is given national application. The Chamber is not seeking to characterize the motives, intentions, or conduct of the parties to this case. Rather, the Chamber seeks to bring to this Court's attention the probable economic and moral consequences of the decision, and the severe detriment to the Chamber's members, and this nation, which would follow from upholding the decision.

Each of the parties has consented, in writing, to the filing of an Amicus Brief on the merits by the Chamber of Commerce of the United States of America. Copies of these written consents accompany this brief as an appendix. The originals have been filed with the Clerk.

SUMMARY OF ARGUMENT

The issue of federal pre-emption of State legislation raises difficult and complex constitutional questions. Historic doctrine, developed by this Court to resolve these questions in a manner best comporting with the requirements imposed by our federal system of government, was misapplied or ignored by the court below.

There is, in fact and law, *no conflict* between the federal patent laws and State laws protecting trade secrets. The two bodies of law are bottomed on different legislative concerns; yet the obligations they impose, and the results they require, are harmonious and complementary.

The decision below strikes at the heart of critical trade secret protection, and portends extreme economic consequences for the United States. The Sixth Circuit's decision reaches a vast area of unpatentable technology, depriving it of any protection.

The scope of the Sixth Circuit's decision is sweeping. Technical developments and refinements which are unpatentable or cannot be practicably patented are deprived, by the court's decision, of legal protection despite the enormous capital investment they represent. The result will inevitably be that investment of capital in development of technical know-how will be diminished.

We are now faced with a critical international trade problem which threatens the effectiveness of the United States as a competitor in world markets. Exportation of technology-intensive products has been the most positive aspect of our trade balance picture. This is, therefore, a time when the nation can ill afford a diminution of investment in technology.

There is a clear relationship between the nation's investment in Research & Development (R&D) and its economic strength. Commitment of risk capital to R&D depends upon the existence of a legal framework protecting a fair chance for the investor to recover his money.

The Sixth Circuit decision, if allowed to stand, will have a severe impact on the willingness of industry to commit capital to R&D efforts. A competitor who has pirated technical know-how without cost will compete from a highly-favored position. Industry cannot be expected to commit large sums to R&D efforts, if those expenditures will not, at least, promise an improve-

ment in the investor's competitive position. The consequences of industry reluctance to invest in developing new products bode ill for the national economy.

Continued investment in R&D will be encouraged, if at all, only by large expenditures for increased measures of secrecy and nondisclosure. Thus, to minimize exposure of many workers to the technology being researched and developed, industry will abandon the team approach to technical problem solving. This will result in loss of efficiency and savings, which otherwise would be injected into the R&D effort.

Rather than sharing developed technology through licensing, companies will retreat to secrecy. This will result in wasteful duplication of efforts to the detriment of the entire economy. Moreover, foreign companies will be unwilling to disclose technical know-how without assurance that the know-how will not simply be appropriated in the United States by competitors.

Industry will not be able to establish confidential arrangements with suppliers, and, therefore, only the large corporations with in-house capabilities will be able to maintain technical know-how in secret.

Small companies will be severely hurt by the Sixth Circuit decision, since only large, well-financed companies will be able to sustain R&D work, absent trade secret protection. Competition will clearly be diminished in the marketplace, if small companies are discouraged from launching research programs.

Congress never intended to pre-empt State legislation in the field of trade secret protection. Federal pre-emption requires a clear expression of congres-

sional intent, and, in the absence thereof, a compellingly clear justification for federal supersession has always been demanded by this Court. In view of the consequences of this ruling, no such compelling justification is possible.

ARGUMENT

I. THE SIXTH CIRCUIT ERRONEOUSLY CONCLUDED THAT CONGRESS INTENDED TO PRE-EMPT STATE TRADE SECRET LAWS BY ENACTING THE PATENT LAWS.

Because the proper ordering of State and national power is critical to the endurance of our federal system, the question of federal pre-emption of State legislative competence presents severe constitutional difficulties. The doctrine developed by this Court to settle conflicts between State and national power has historically recognized that a declaration of the supremacy of one or the other must be reached only after a careful consideration of the requirements imposed by a governmental system of dual sovereigns acting upon the same constituents.[2]

In those instances in which federal legislation emanates from an express constitutional grant of exclusive legislative power to the national government, federal supremacy is clear.[3] Likewise, in those instances in which Congress has legislated pursuant to a constitutional grant of power which is concurrent with the legislative power also enjoyed by the States, the fed-

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[2] See, *e.g.*, Osborn v. The Bank of the United States, 22 U.S. (9 Wheat.) 738 (1824).

[3] See, *e.g.*, McCulloch v. Maryland, 17 U.S. (4 Wheat.) 316 (1819).

eral legislative scheme is held, by virture of the Supremacy Clause,[4] to have superior dignity.[5]

It is, however, in those instances in which a conflict, real or imagined, is seen to exist between State legislation and federal legislation, upon which the Constitution and the Congress are silent as to the supremacy, that maximum difficulties arise. Historically, this Court has determined that a congressional intent to pre-empt State legislative competence will be implied, given certain conditions.[6]

Where State and federal legislation create conflicting duties, impose contrary obligations, or reach inconsistent results, this Court has held that Congress impliedly intended to foreclose State legislation, and that the national legislation must predominate.[7]

It is the argument of this Amicus that, in the absence of an express constitutional delegation to the national government of legislative authority over trade secrets, and in the absence of an express congressional intention to pre-empt State trade secret laws pursuant to a constitutional delegation of concurrent power, Congress should not be held to have impliedly intended to pre-empt State trade secret legislation because: (1) there is no conflict between the patent laws and State regulation of trade secrets; and (2) the results of that implication, detailed in this brief, show that the na-

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[4] U.S. Const., art. VI, cl. 2.

[5] See, *e.g.*, Cooley v. Board of Wardens, 53 U.S. (12 How.) 299 (1851).

[6] See, *e.g.*, Pennsylvania v. Nelson, 350 U.S. 497 (1956); Hines v. Davidowitz, 312 U.S. 52 (1941).

[7] See, *e.g.*, Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947).

tional interest in economic well-being and ethical conduct of business relations will be frustrated.

In setting forth details of the economic chaos which will likely result, should the Sixth Circuit's decision in this case be upheld, and in explicating the damage to the ethical conduct of business relationships which will be the probable, though unintended, result of the decision below, this Amicus intends to show that Congress, which must be presumed to act rationally and in the best national interest, could not *impliedly* have intended such results.

The severe economic dislocations that will be wrought if the Sixth Circuit decision is affirmed, in themselves, demonstrate the complementary manner in which both the patent laws and the trade secret laws serve to protect technology and investment. Trade secret laws cannot be *in conflict* with the patent laws, when their effective abolition will result in such economic disruption as to defeat the very purpose of the patent laws.

II. THERE IS NO CONFLICT BETWEEN FEDERAL PATENT LAW AND STATE TRADE SECRET LAW.

A. The Objective of Trade Secret Laws is Not in Conflict with the Objective of the Patent Laws.

This Court has warned against the casual presumption of federal supremacy. For instance, last Term, Mr. Justice POWELL, writing for this Court in *New York State Dept. of Social Services* v. *Dublino*,[8] quoted

[8] 413 U.S. 405, 37 L.Ed. 2d 688 (1973). *Held*, the Work Rules of the N.Y. Social Welfare Law, 52A McKinney's Cons. Laws § 131(4), *not* pre-empted by the Federal Work Incentive Program provisions of the Social Security Act, 42 U.S.C. §§ 602(a) 19, 630, *et seq.*

with approval from *Schwartz* v. *Texas,* 344 U.S. 199, 202-203 (1952):

> "This Court has repeatedly refused to void state statutory programs, absent congressional intent to pre-empt them.
>
> " 'If Congress is authorized to act in a field, it should manifest its intention clearly. It will not be presumed that a federal statute was intended to supersede the exercise of the power of the state unless there is a clear manifestation of intention to do so. *The exercise of federal supremacy is not lightly to be presumed'.*" (Emphasis added.)

Yet, the Sixth Circuit, in this case, *lightly assumed* so insidious a conflict between federal patent legislation and State trade secret laws as to compel the conclusion that the mere enactment of federal legislation in the field of patents *necessarily* pre-empts State legislation in the field of trade secrets. The court's approach not only flies in the face of congressional intent, but also is built on demonstrably incorrect factual and conceptual assumptions.

Amicus wishes this Court to have the factual and conceptual data necessary for a *correct* analysis of the critical issue presented by this case. Consideration of all the relevant information leads inescapably to the conclusion that Congress, by enactng the patent laws, *could not have intended* to pre-empt State power to legislate in the field of trade secrets.

The Sixth Circuit viewed the objective of the patent laws as encouraging disclosure of discoveries in consideration for the reward of an exclusive right to those discoveries for a limited period of time. The

broader, overriding objective of the American patent system, as embodied in the Constitution, is to promote the progress of the useful arts and, ultimately, to promote the industrial and economic progress of the United States.

The court viewed the effect of State trade secret laws as suppression of disclosure, but the *true* effect of these laws is to prevent violation of fiduciary relationships, breach of contractual agreements, and commission of torts. That is the fundamental objective of State trade secret laws. In a very real sense, State trade secret laws work harmoniously with and supplementarily to the patent laws to advance the economic and industrial progress of this nation.

B. The Nature of Patent "Protection" is Fundamentally Different from the Nature of Trade Secret "Protection".

The patent laws arise out of the exercise by Congress of the constitutional grant of power "to promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries . . .".[9] Patent "protection" is in reality the grant of a property right in an invention which satisfies the requirements of patentability imposed by Congress. Patents protect inventions.

Trade secret "protection" is not a recognition of any property right in a trade secret, nor is it truly protection of any trade secret. Trade secret laws affords no protection to technical *information, i.e.,* the secret itself. Competitors may, by fair and independent means, develop and use the same information. Trade

[9] U.S. CONST., art. I, § 8, cl. 8.

secrets, therefore, monopolize nothing. Trade secret laws merely ensure that a competitor's, or a trusted employee's, theft or breach of trust will not cause the trade secret owner to make an unwilling gift of his valuable property.

Trade secret laws protect the trust and confidentiality of business and fiduciary relationships and are grounded only incidentally, if at all, in property. Mr. Justice Holmes, writing for this Court in *E. I. duPont de Nemours Powder Co.* v. *Masland,* 244 U.S. 100 (1917), stressed "the primary fact that the law makes some rudimentary requirements of good faith," and went on to say:

> "The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them. These have given place to hostility, and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations." [10]

The court below ignored the separate and distinct rationales of patent legislation, on the one hand, and trade secret laws on the other. However, in dealing with the issue of federal pre-emption, those distinct rationales are of significance. The property right afforded by the patent laws is of national concern—it is a right national in scope. The subject addressed by State trade secret laws is one of purely local importance: construction of contracts and litigation of tort

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[10] 244 U.S. at 102.

claims. Moreover, the maintenance of an atmosphere of orderly and ethical business relationships, arising out of trust and confidence, is a matter uniquely within the State police power to regulate.

III. THE INTENT OF CONGRESS TO PRE-EMPT STATE TRADE SECRET LAWS SHOULD NOT BE IMPLIED WHERE THE RESULT WOULD BE ECONOMIC UPHEAVAL.

A. The Sixth Circuit's Decision Strikes Down the Most Meaningful Area of Trade Secret Protection.

The decision below, while superficially restricted to certain classes of trade secrets, strikes at the very heart of meaningful trade secret protection.

The Sixth Circuit has held that the federal patent laws, through the Supremacy Clause of the Constitution of the United States, pre-empt the State of Ohio's power to protect a trade secret from wrongful appropriation by others, where the trade secret is an appropriate subject for a patent, and has been used commercially for more than one year.

In formulating its opinion, the Sixth Circuit rejected, as "too broad for our consideration in this case",[11] an issue which "requires a determination as to whether the enforcement of any and all state trade secrets laws conflict with the policies of the United States patent laws".[12] The court, however, framed an issue, the affirmance of which forecasts dire economic consequences:

> "Whether a state trade secret law which protects an invention which would be an appropriate sub-

[11] 478 F.2d at 1078.

[12] *Id.*

> ject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year conflicts with the policies and purposes of Article I, Section 8 (Clause 8) of the Constitution and the Patent Laws adopted pursuant thereto." [13]

The court did not decide that Congress has preempted the totality of the States' ability to regulate by affording protection to some trade secrets. Trade secrets that are not appropriate subjects for patenting under 35 U.S.C. § 101,[14] or those not in commercial use in excess of one year, can, presumably, still be regulated by the States. Prohibited by the decision is State protection of those trade secrets which have withstood the rigors of business analysis and market acceptance, and attained a valuable status within the marketplace: *i.e.*, those that have been in use for more than one year.

The Sixth Circuit holding, "that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an *appropriate subject for a patent* under the United States Patent Laws is in conflict with . . . those patent laws" [15] (emphasis added), requires some analysis. Arguably, the opinion can be construed to forbid only State protection of technology patentable over the prior art, in accord-

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[13] *Id.* at 1078-79.

[14] 35 U.S.C. § 101. "Inventions patentable

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

[15] 478 F.2d at 1086.

ance with the concepts of 35 U.S.C. §§ 102 [16] and 103.[17] However, a careful reading of the Sixth Circuit's opinion reveals a broader intent.

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[16] 35 U.S.C. § 102. "Conditions for patentability; novelty and loss of right to patent.

"A person shall be entitled to a patent unless—

"(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

"(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

"(c) he has abandoned the invention, or

"(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or

"(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

"(f) he did not himself invent the subject matter sought to be patented, or

"(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other."

[17] 35 U.S.C. § 103. "Conditions for patentability; non-obvious subject matter

"A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject

The court stated that its inquiry would "be governed by certain facts which are admitted or obvious from the evidence offered and the concessions of counsel".[18] In this regard, the court specifically noted that "the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable,' that is *appropriate subjects for consideration under* the provisions of Title 35 U.S.C. § 101".[19] (Emphasis added.) Immediately after stating the facts upon which its inquiry would "be governed", the court defined the issue presented to be limited to trade secret law which, *inter alia,* "protects an invention which would be an *appropriate subject for a patent* . . . ."[20] (Emphasis added.)

The phrase "*appropriate subject for a patent*", used by the court both in framing the issue and stating its conclusion, originated in the factual concession by counsel for Kewanee, that the trade secrets were "*appropriate subjects* for consideration under the provision of Title 35 U.S.C. § 101"[21] (Emphasis added.) Thus, in the factual background of the case, the Sixth Circuit's opinion must be interpreted to pre-empt State trade secret laws which protect technology falling within the broad categories of subject matter defined in 35 U.S.C. § 101.[22]

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matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

[18] 478 F.2d at 1078.

[19] *Id.*

[20] *Id.* at 1078-79.

[21] *Id.* at 1078.

[22] *Supra.* note 14.

B. Protection of Billions of Dollars Worth of Technology Will Be Destroyed by the Sixth Circuit Decision.

The decision below withdraws needed legal protection from an enormous area of valuable technology.[23] While much of that technology may *theoretically* fall within the categories of patentable subject matter, most of it probably will not rise to the high standards of novelty, utility, and nonobviousness, set by this Court, to justify the issuance of a patent grant, and the protection which that grant affords.

As this Court announced in *Graham* v. *John Deere Co.*,[24] "patentability is dependent upon three explicit conditions: novelty and utility as articulated and defined in § 101 and § 102, and nonobviousness . . . as set out in § 103".[25] Thus, § 103 is a "statutory expression of an additional requirement for patentability",[26] over and above that set forth in § 101.

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[23] The existing widespread and economically significant practice of licensing trade secrets and know-how is evidence of the economic value in the marketplace of the trade secrets and know-how. No licensee would willingly contract to pay for information that is of no value. The Sixth Circuit's decision eliminates legal protection for secret technology used to produce commercial products, one year after the first sale of products produced using the technology. Thus, the legally enforceable value of such technology after practice commercially for one year is zero. However, in the real world, the technology at the end of a one-year period of commercial usage is usually more valuable than it was at the start of the one-year period. Drastic interference, such as would be effected by the Sixth Circuit's decision, with the value of technology is likely to produce bad results. See, SAMUELSON, ECONOMICS, 370-76 (8th ed. 1970).

[24] 383 U.S. 1 (1966).

[25] *Id.* at 12.

[26] *Id.* at 15.

All technology classifiable as patentable subject matter under 35 U.S.C. § 101,[27] must also meet the "additional requirements for patentability" as stated in 35 U.S.C. § 103.[28] The Sixth Circuit decision, however, proscribes State trade secret protection of all trade secrets encompassed by § 101, irrespective of the ability of such trade secrets to meet the requirements of § 103.

Critical engineering decisions and judgments are made in the development of new products, and in the implementation of new processes. Many of these judgments are unpatentable, since they are considered matters of choice, capable of attainment by those of ordinary skill in the art.[29] But, while being matters of choice, they frequently require tremendous expenditures of capital to achieve.

For instance, a machine may be comprised of tens of thousands of parts. It cannot be placed in production, however, until each of the individual parts is accurately dimensioned and shaped. In addition, materials must be selected for those parts, and dimensional and spacing tolerances must be developed and tested.

Similiarly, the development of a process requires that many interrelated parameters, such as temperatures, times, and pressures, as well as selection of starting materials, be integrated, harmonized, and optimized. Such efforts are begun on a laboratory bench scale, proceed to a pilot plant stage, and culminate in a com-

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[27] *Supra* note 14.

[28] *Supra* note 17.

[29] *In re* Levin, 178 F.2d 945 (C.C.P.A. 1949); *In re* Mason, 156 F.2d 189 (C.C.P.A. 1946); *In re* White, 39 F.2d 974 (C.C.P.A. 1930).

mercial plant. Extremely large sums of money must frequently be expended to achieve success.[30]

While falling within the definition of theoretically patentable subject matter under § 101, such items as the dimensioning of parts, the selection of materials for these parts, or the ascertainment of processing parameters, are predominantly unpatentable, for they fail to meet the stringent requirements of § 103.[31]

Machine fabrication data and process data are costly to develop, and, if related to marketable products, can be extremely valuable. They constitute a type of technology which the owner must seek to protect from disclosure, since a competitor who obtains access to technology does not incur the investment expenses of the developer, and therefore competes from a favored position.

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[30] The dollar value of trade secrets presently held by the industry of this nation is not known. But the damages awarded in trade secret cases may serve to suggest the enormous magnitude of this value.

Merck & Co., for instance, spent one and one-half million dollars ($1,500,000) developing amprolium, a coccidiostat for destroying poultry parasites. An employee of Merck & Co. copied these trade secrets and conveyed them to another. The same person also engineered the theft of a formula for new additives to improve lubricating oil developed by Rohm & Haas Co. and a formula for an electrical device developed by Sprague Electric Co. In late 1964, judgments were awarded to these three companies, in the sums of $8,600,000 to Sprague, $6,637,499 to Merck, and $6,038,000 to Rohm & Haas. NATIONAL INDUSTRIAL CONFERENCE BOARD, INC., EMPLOYEE PATENT AND SECRECY AGREEMENTS 4-5 (Studies in Personnel Policy, No. 199, 1965).

These judgments are directed to only three innovations: the overall value of trade secrets to the thousands of industrial concerns in this nation is many, many fold that expressed above.

[31] Hotchkiss v. Greenwood, 52 U.S. (11 How.) 248 (1850); Graham v. John Deere Co., 383 U.S. 1, (1966).

In industry, a wide range of technology falls within the category from which the Sixth Circuit has now removed legal protection. For instance, many valuable commercial products are created by blending known components to produce distinctive consumer-desired tastes, textures, and flavors which characterize the product.

Many food products, for example, are manufactured by blending various ingredients, spices, and flavors in specific concentrations and quantities, or by subjecting such food products to process variations in order to obtain nutritional values, taste, texture, and flavor characteristics, desired by consumers. Those blends are carefully guarded as trade secrets.

Similiarly, such blending and processing techniques are common with other consumer goods, such as tobacco and health-care products. All of these consumer products constitute theoretically patentable subject matter under 35 U.S.C. § 101. The Patent Office and the courts, on the other hand, tend to consider such blending and processing trade secrets to be mere matters of choice; and, unless some very unusual and unexpected results are obtained, find them unpatentable under the strictures of § 103.[32] Traditionally, trade secret laws have

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[32] Smith v. Nichols, 88 U.S. (21 Wall.) 112, 118-119 (1874):

"A new idea may be ingrafted upon an old invention, be distinct from the conception which preceded it, and be an improvement. In such case it is patentable. The prior patentee cannot use it without the consent of the improver, and the latter cannot use the original invention without the consent of the former. But a mere carrying forward or new or more extended application of the original thought, a change only in form, proportions or degree, the substitution of equivalents, doing substantially the same thing in the same way by sub-

offered protection to the developers of this type of technology.

Even if technology is patentable, there are areas in which patent protection is inadequate or impractical. For example, in many cases it is impossible for a patent owner to detect when his patented process is being used, since infringers can use the process in the privacy of their own plants and facilities.

Further, even if the use of the technology can be detected, the owner must be prepared to file patent applications in all countries in which the technology may be used, since a United States patent will disclose the process to everyone, but will provide protection *only* in the United States. Obviously, many small companies cannot afford this worldwide patent protection. For them, even the expense of filing United States applications on *all* developed technology is impractical.

C. This Decision Comes at a Time of Mounting Concern for the Economic Well-Being of the United States as An Effective Competitor in World Markets.

The nation's concern in recent years over its economic growth/productivity has continually focused on our declining position in international trade. While our trade deficit has been reduced from $6.3 billion in 1972 to an annual rate of $1.6 billion for the first six

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stantially the same means with better results, is not such invention as will sustain a patent."

American Infra-Red Radiant Co., v. Lambert Industries, Inc., 360 F.2d 977, 987 (8th Cir. 1966):

"We have held in the past and we continue to hold that '[i]nvention will not be decided on the narrow issue of degree,' and that the mere changing of form, proportions, or size will not alone constitute 'invention.' . . . This is true even though the change brought about better results."

months of 1973,[33] it is clear that we can no longer count upon the positive balance of trade position which endured until 1970.

Our competitive stance in world markets has been eroded over the years. The United States share of the world gross national product has declined from 39.3% in 1950 to 30.2% in 1970.[34] At the same time, other countries have made dramatic advances. Japan's share, for example, has grown from 1.5% to 6.2%, roughly a fourfold increase.[35] The European Economic Community's share has grown from 11.1% to 14.8%.[36]

The true picture of our foreign trade problems, however, is not apprehended solely by looking at historical data. Apparent in recent years, and projected for future years, are tremendous trade deficits in minerals, particularly energy fuels. In 1972, we experienced a deficit trade balance for raw and processed minerals of about six (6) billion dollars.[37] The Secretary of the Interior projects a trade deficit for all minerals in 1985 of $40 billion, up roughly $34 billion from the 1972 level.[38] The Secretary also projects a deficit of

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[33] U.S. Dept. of Commerce, *Best Export Performance Since 1951 Cuts Deficit in Merchandise Trade*, III COMMERCE TODAY 8 (August 20, 1973).

[34] PETER G. PETERSON, THE UNITED STATES AND THE CHANGING WORLD ECONOMY, Chart 1 (1971).

[35] *Id.*

[36] *Id.*

[37] NATIONAL COMMISSION ON MATERIALS POLICY, MATERIAL NEEDS AND THE ENVIRONMENT TODAY AND TOMORROW 2-26 (1973).

[38] SECRETARY OF INTERIOR, MINING AND MINERALS POLICY 1973 at 51 (Second Annual Report of the Secretary of Interior under the Mining and Minerals Policy Act of 1970 [1973]).

nearly $100 billion by the year 2000.[39] While these projections themselves are alarming, many consider them conservative, and project much greater deficits in mineral supplies. In any event, the projections present a clear international trade challenge to this nation.

A positive aspect of this otherwise discouraging picture, however, is our increased trade over the twenty (20) year period from 1951 to 1970 in "*technology-intensive*" manufactured products--the fruits of R&D. Our *exports* of such products rose from $6.6 billion in 1951 to $22.6 billion in 1970.[40] By 1970, our *imports* of such technology-intensive products had risen to only $13.0 billion.[41] In 1970, we thus experienced a *favorable* trade balance of about $10 billion in *technology-intensive* products.

By contrast, *exports* of "*nontechnology-intensive*" products rose from $3.7 billion in 1951 to only $6.8 billion in 1970.[42] By 1970, however, our *imports* of *nontechnology-intensive* products had risen to $12.9 billion.[43] In 1970, we thus suffered a trade deficit of about $6 billion in *nontechnology-intensive* products.

It is, therefore, evident that our very healthy trade position in *technology-intensive* products saved us from the dangerous economic effects of our deplorable trade imbalance in *nontechnology-intensive* products.

It appears, however, that in recent years "the United States had been losing its technological leadership in

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[39] *Id.*

[40] PETER G. PETERSON, *supra* note 34 at Chart 21.

[41] *Id.*

[42] *Id.* at Chart 20.

[43] *Id.*

the production and export"[44] of such technology-intensive products. This fact was recognized in the Department of Commerce study of the "Policy Aspects of Foreign Investment by U.S. Multinational Corporations":

> "Within the Department of Commerce, Dr. Michael Boretsky has investigated this area in detail. Through an analysis covering, *inter alia,* United States and foreign trade trends, productivity and R&D expenditures, Boretsky has produced evidence which tends to support the thesis that the United States depends largely upon the export of high technology products for a favorable balance of trade. Boretsky argues that for the past several years the United States has been losing its technological leadership in the production and export of such products, and that if this trend is not reversed, the United States will face a continually worsening balance of payments position. His writings attribute this loss in competitiveness to a number of factors, including: increased intensity of foreign R&D efforts, slower rates of productivity increase by U.S. firms, the ability of foreign countries to make up considerable technological ground by the adoption of 'old technology', exchange rates which put the United States at an unnecessary price disadvantage, and the ability of foreign countries to purchase and assimilate relatively new technologies from innovator countries."[45]

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[44] U. S. DEPARTMENT OF COMMERCE, POLICY ASPECTS OF FOREIGN INVESTMENT BY U. S. MULTINATIONAL CORPORATIONS 31 (1972).

[45] *Id.*

Thus, in an era when we are extremely dependent on our world technological leadership, and this leadership is being challenged, it is clearly counter-productive for the United States to obliterate a critical portion of that legal mechanism which protects and stimulates our technological growth. Although the Commerce Department study recognizes that the erosion of our trade balance has, in part, occurred as a result of the transfer of technology to the developing countries, it is far better that such transfers should occur through controlled contractual arrangements, rather than through breaches of trust and confidence.

The latter route denies to the nation the positive benefit to its international trade position accruing from royalties paid to its citizens for rights to technological advances, developments, and discoveries. These rights include not only those embodied in patents, trademarks, and copyrights, but also those embraced in trade secrets and technical know-how.[46]

The benefit to United States foreign trade through export of these rights has grown from about $840 million in 1960, to about $3.1 billion in 1972.[47] By contrast, the United States spent only about $276 million on imports of such rights in 1972.[48] International export sales and licenses of technology rights by the United States in 1972 thus yielded a startlingly favorable trade balance of $2.8 billion.

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[46] FINNEGAN AND BRUNSVOLD, THE LAW AND BUSINESS OF PATENT AND KNOW-HOW LICENSING D2-3(2d ed. 1972).

[47] U. S. Dept. of Commerce, 53 SURVEY OF CURRENT BUSINESS 28, ll. 7, 10 (June, 1973).

[48] *Id.* ll. 21, 24.

From the foregoing, it is clear beyond peradventure that the vitality of R&D activities in the United States, together with the protective support given to them by our legal system, have sustained our international trade position in world markets through a period in which our trade balance and productivity were decreasing in low technology areas. It is also now common knowledge that competition against the United States is escalating, even in high technology areas.

Put in the simplest and most direct terms, this decision, if affirmed, is an invitation to foreign competitors of United States companies to appropriate valuable trade secret and know-how technology from United States owners without cost, and with impunity.

D. Risk Capital Must Be Available To Support R&D.

Attempts have been made to relate the nation's R&D investment to advancements in gross national product (GNP). The Panel on Invention and Innovation, an Advisory Committee to the Secretary of Commerce, found that the average annual hours of work remained substantially constant during the years 1947-1965 while the GNP was nearly doubled. The Panel stated that, "without presuming to say how much of this increase in GNP was attributable to technological innovation, we are confident that technological innovation played a major role".[49]

Recognizing that GNP statistics often fail to excite the imagination, the Panel looked at three industries that were commercially non-existent in 1945, but which, between 1945 and 1965, contributed significantly to the

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[49] U. S. DEPT. OF COMMERCE, TECHNOLOGICAL INNOVATION: ITS ENVIRONMENT AND MANAGEMENT 3-4 (1967).

nation's growth. Specifically, the Panel investigated the television, jet travel, and digital computer industries. Over that twenty (20) year period, these highly innovative industries contributed $13 billion to our GNP, and an estimated 900,000 jobs to our economy. In substance, the Panel concluded that these innovative industries have very importantly "affected the quality of our lives".[50]

While precise measurements are lacking, it is generally accepted that there is a clear relationship between the economic strength of a nation and its investment in R&D and innovation. In confirmation of this premise, the National Science Foundation has found the contribution of R&D to our economy to be "positive, significant and high":[51]

> "Although what we know about the relationship between R&D and economic growth/productivity is limited, all available evidence indicates that R&D is an important contributor to economic growth and productivity. Research to date seeking to measure this relationship (at the level of the firm, the industry, and the whole economy) points in a single direction—the contribution of R&D to economic growth/productivity is positive, significant and high." [52]

Commitment of capital, as well as time and effort, to R&D and the commercialization of innovative discoveries is an extremely risky and difficult endeavor. While successful commitments can inure to the benefit

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[50] *Id.* at 4.

[51] NATIONAL SCIENCE FOUNDATION, RESEARCH AND DEVELOPMENT AND ECONOMIC GROWTH/PRODUCTIVITY 3 (NSF 72-303, 1971).

[52] *Id.*

of innovators and investors, the prime beneficiary is the consumer, to whom the products of innovation become available through this process.

Also, through continual R&D on existing products, the consumer benefits from increased quality and lower cost. The nation as a whole benefits from R&D, because the ability of United States industry to compete in domestic and world markets is enhanced. A reduction of the incentive to invest risk capital to support R&D would deprive the nation of these attainable benefits.

E. If Affirmed, the Decision of the Sixth Circuit Would Have a Withering Effect on Investment in R&D.

The paramount importance of the Sixth Circuit decision lies in the extraordinarily adverse impact it will have on the economy of this nation, and the undesirable consequences which will follow, if it is affirmed.

Recognizing that other nations are "challenging us both in intellectual and in economic terms",[53] President Nixon, in his March 16, 1972, Message to Congress on Science and Technology, called for ". . . a strong new effort to marshal science and technology in the work of strengthening our economy and improving the quality of our life",[54] but cautioned:

> ". . . we must see that the environment for technological innovation is a favorable one. In some cases, excessive regulation, inadequate incentives and other barriers to innovation have worked to discourage and even to impede the entrepreneurial spirit. We need to do a better job of determining

[53] 8 WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS 581 (1972).

[54] *Id.*

> the extent to which such conditions exist, their underlying causes, and the best ways of dealing with them." [55]

In the environment which existed before the Sixth Circuit decision, there was evidence of a strong and aggressive R&D commitment by this nation. During 1972, industrial R&D expenditures totaled $11.4 billion, and they are expected to increase to $14 billion in 1975.[56]

Expenditures of this magnitude will only be made in reliance upon a legal framework that will protect the investments made, so that industry can, with some certainty, expect to realize a reasonable return. Otherwise, there is little or no incentive to engage in risky and expensive R&D efforts.

The total cost of bringing a new product to market is far greater than the research expense incurred in creating the underlying innovation. The development expense necessary to bring the research to the point of commercial utilization must also be considered.

It is estimated "that what we commonly call research, advanced development or basic invention, accounts, typically, for less than ten percent" [57] of the cost incurred in bringing a new product to the marketplace. While the research relating to a new product may equal only five (5) to ten (10) percent of the total commercialization costs, all research does not

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[55] *Id* at 582.

[56] NATIONAL SCIENCE FOUNDATION, SCIENCE RESOURCES STUDIES HIGHLIGHTS 1-2 (NSF 73-301, February 28, 1973).

[57] U. S. DEPT. OF COMMERCE, *supra* note 49, at 9.

yield commercial products or processes. The investment in unsuccessful research must also be recovered through sales of commercially valuable products.

Research, however, is just one stage. In addition, engineering and design of products account for "ten (10) to twenty (20) percent of total commercialization costs; tooling and manufacturing engineering for forty (40) to sixty (60) percent; manufacturing start-up expenses for five (5) to fifteen (15) percent; and marketing start-up expenses for ten (10) to twenty-five (25) percent.[58]

In its study of twenty (20) major technological innovations, the National Commission of Technology Automation and Economic Progress found that the time period from discovery of a technically feasible concept to the beginning of commercial development averaged nine (9) years.[59] The commercial development period, beginning with commitment of development funds, and ending with the introduction of the commercial product or process to the marketplace, averaged five (5) years,[60] a total development time of some fourteen (14) years.

Of course, the time period for total development of a particular product may vary widely from the average. For instance, Polaroid color pack cameras required fifteen (15) years from initial development to introduction to the marketplace; Minute Rice—

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[58] Id.

[59] National Commission on Technology, Automation, and Economic Progress, 1 TECHNOLOGY AND THE AMERICAN ECONOMY 4 (1966).

[60] *Id.*

eighteen (18) years; Purina Dog Chow—four (4) years; penicillin—fifteen (15) years; Xerography—fifteen (15) years; electric toothbrushes—three (3) to four (4) years; and television—fifty-five (55) years.[61]

The road from invention to marketplace is both hazardous and lengthy. To stimulate travel on this road, the nation must see that it is well-marked and policed, to ensure protection from highwaymen.

The new technology created by R&D must be protected, not only so that the R&D investment can be recovered, but also in order that there be a fair chance for profit commensurate with the risk and time required to bring products of the new technology to the marketplace. One (1) year's commercial use of a trade secret falling within the categories of patentable subject matter is surely an inadequate time during which to secure a reasonable return on its investment.

If an adequate return on investment is to be secured, the developers of a new product must be permitted to compete over a period of years on an equitable basis with others in the marketplace. Fair competition cannot exist where competitors are able to avoid R&D costs by pirating the confidential technology of innovators.

The pirate competitor will either sell his product at a lower price in the marketplace, or maintain the same price, achieving a higher profit. If, shortly after entering the marketplace, the innovator must compete with one who has pirated his expensive technology, the innovator cannot recover his investment, and, in fact, may even be forced out of the market by the unfairly

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[61] L. Alder, *Lag Time and New Product Development*, 31 JOURNAL OF MARKETING, 17-21 (January 1966).

low prices offered by the pirate. The incentive to invest in R&D would be destroyed.

The time, effort, and cost required to make a new product commercially successful can be staggering. To justify this investment there must be a reasonable return to the investors. If there is no such return, there will be no incentive to invest in the development of new products. To protect return on investment, and, thereby, the incentive to support R&D, there must exist a legal method to reserve and secure valuable innovations springing from R&D efforts to those who paid for the R&D.

F. The Effectiveness of R&D Efforts Will Be Severely Impaired.

Many large companies in competitive, high technology fields, which possess their own risk capital, will probably not substantially reduce their commitments to R&D as a result of the Sixth Circuit decision. But the impracticality or impossibility of patenting *all* developments will cause these companies to institute new procedures to reduce risk of loss of their valuable trade secrets. The unfortunate consequences are that such procedures: will be expensive; will divert funds from needed R&D efforts; and will render such efforts less efficient in yielding new and valuable technology. It may, therefore, reasonably be expected that the favorable cost-benefit ratio of R&D endeavors will be severely, and *unfavorably,* altered.

1. Industry will compartmentalize R&D efforts in direct derogation of the advantages of the team approach.

A company faced with reliance on self-protective measures to defeat industrial espionage may be forced to compartmentalize its R&D staff. Then, no one

individual will have access to all the trade secrets, or all the know-how, in relation to a particular product or process. This economically inefficient, restrictive measure would thus ensure that no single employee would be in a position to defect to a competitor with sufficient information to permit the competitor to duplicate the product or process—too many pieces would be missing to allow completion of the jig-saw puzzle.

Compartmentalization of R&D is in direct conflict with a trend noted in February, 1972 by the National Science Foundation—"laboratory consolidation is now being pursued by many organizations".[62] NSF found that, "some firms decided that substantial savings could be realized by centralizing the entire research effort".[63] Normally, centralization results in substantial savings, in that "separate laboratories require more research management personnel, duplicate specialists at several locations, more expensive, but less adequate, library facilities, etc. . . . ."[64]

Centralization promotes research productivity because of "greater interaction" between research personnel. It is mainly upon this premise that the team effort concept of R&D is based. Normally, greater benefits from research can be achieved in less time by having a team of specialists attack a problem as a whole and pursue it to a solution, than can be achieved by having various specialists individually attack the different aspects of a multi-faceted problem.

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[62] NATIONAL SCIENCE FOUNDATION, SCIENCE RESOURCES STUDIES HIGHLIGHTS, *supra* note 56, at 4.

[63] *Id.*

[64] *Id.*

Moreover, such compartmentalization of R&D work can, at best, only succeed in limiting the ultimate risk of disclosure. If there were no legal restraints, a group of employees could leave an employer and set up a competing enterprise based on the employer's trade secrets. In even more disloyal fashion, a group of employees could conspire to sell trade secrets to their employer's competitors.

2. Wasteful duplication of R&D effort will be encouraged by the demise of know-how licensing

If trade secrets cannot be licensed or otherwise protected, they will be hoarded and jealously guarded. Such hoarding will result in a sharp reduction in the exchange of technology, with a concomitant duplication of effort to develop the same technology.

High risks would accompany transfer of technology by contract, for, even if the transferee acted in good faith under the contract, the transferor could not always rely on the security measures of the transferee to protect the technology from disclosure. Frequently, the ability of the transferee to protect the technology will be proportional to the transferee's size. Accordingly, small companies may encounter severe obstacles in acquiring needed technology.

Further, companies, both large and small, will be reluctant to share their technology with others for fear that the value of the licensed technology will be lost through inadequate precautions maintained by their licensees. In the past, it has been customary to permit a licensee to make periodic payments in amounts which are calculated on the extent of use of the technology, so that licensee's payments are based on what the technology is worth as it is used. Now, before a

company could agree to license another company to use its technology, it would have to receive full payment in advance as "front-money", since the licensee, after receiving the technology, could refuse to make periodic payments based on use, on the ground that the trade secrets are unprotectible.

Manifestly, this circumstance would foreclose small companies from licensing technology, since they could not afford the large, lump-sum payments which would be required in advance.

Industrial progress would be drastically retarded, were each company forced to *independently* develop its own process technology. Access to technology developed by others through licensing avoids duplication of R&D efforts by others, and permits rapid entry of a new competitor into markets inadequately served. Moreover, licensing of technology promotes cross-fertilization of research effort through interchange of complementary, partially developed ideas.

3. Supplier relations will be disrupted.

This decision makes it impossible for industry to rely upon confidential disclosures to suppliers of: (a) raw materials and equipment, or (b) services, such as engineering and construction. Confidential data must be made available to suppliers to enable them to perform their service or supply function. The result of the Sixth Circuit decision would be to force industry to establish in-house capabilities to do those things previously done by outside contractors bound by the requirements of secrecy.

Another effect of disrupting supplier relationships would be seriously to decrease the efficiency with which

such materials and equipment are supplied, or such services performed.

By way of illustration, if new processing equipment is to be built and installed today, a company usually looks to outside suppliers who specialize in making that equipment. The company must disclose to the equipment supplier the particulars of its process, and solicit design and construction of equipment to meet those particulars. The supplier, however, is charged, under threat of prosecution for violation of State trade secret laws, with maintaining those particulars in secrecy.

Without trade secret protection, the supplier could freely convey those particulars to a competitor. The contracting company is then forced, against economic logic, to go into the equipment construction business with itself as its sole customer.

This self-supply capability will not be available to the small businessman. He will have no recourse but to expose his trade secrets to potential appropriation by others.

4. The flow of technology to this country would be crippled.

A foreign company enjoying an adequate legal system to protect its trade secrets abroad will be extremely reluctant to send technology to the United States, if we offer no comparable protection for its trade secrets here. The alternative to licensing technology into the United States would require a foreign company to keep its technology abroad, and seek profit by exporting products to the United States to compete with domestic industry.

Further, a foreign company would know that it could not collect royalties for trade secrets which it licenses into the United States. A foreign company could protect itself under such circumstances only by requiring payment of all royalties within the one year period of use permitted in the United States under the Sixth Circuit decision. In many cases, where trade secrets are of great value, and have traditionally been paid for on a use basis, prepayment would be impractical. The sums of money required in the form of "front-money" payments would be staggering. At the least, this type of payment requirement would foreclose small, and perhaps even medium size, companies from purchasing foreign technology.

Finally, it is noted that many great jumps in technology occur, not from a single advance in the art, but from a chain of small advances, culminating in a major breakthrough. Were the exchange of technology to be limited, domestic industry would lose access to technological advances, made both here and abroad, which might form part of the chain from which major breakthroughs result. The adverse impact of this exclusion upon the competitiveness of U. S. industry in world markets would be profound and enduring.

G. The Sixth Circuit's Eradication of the Critical Area of Trade Secret Protection Would Require Greater Governmental Interference in Industrial Activities.

Affirmance of the Sixth Circuit decision eliminating the legal mechanism now used to protect vast areas of technology from unauthorized disclosure, would force upon the United States Government a new burden to ensure that technology affecting national security does not pass into the hands of unauthorized foreign nations. In assuming this new burden, the Government

would be required greatly to increase its monitoring of industrial activities, so that it could identify and impose disclosure restrictions upon information which is sensitive from a national security standpoint.

The United States Government already has export controls which operate to minimize transmittal of sensitive information to selected Communist Bloc countries.[65] However, these controls do not prevent publication of sensitive information in technical journals, freely available to scientists in foreign countries. In the past, publication of sensitive information has not been a pervasive problem, since industry has treated this information as trade secrets, and those having access to it have been restrained from publishing it by the trade secret laws.

Withdrawal of trade secret protection would remove restraints on publication from those having access to sensitive information. Many people, intending only to share their new developments with the scientific community, would in fact be making sensitive information available to foreign countries having interests adverse to the United States.

The United States has, for example, much valuable and sensitive technology in jet fuels, high-temperature alloys, electronic equipment, and the like, which today is not published, or otherwise made available to foreign interests, because the companies developing this technology preserve the information as trade secrets.

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[65] Export Administration Act, 50 U.S.C. § 2401 (1969). The Act sets forth congressional finding (2) as:

> "(2) The unrestricted export of materials, information, and technology without regard to whether they make a significant contribution to the military potential of any other nation or nations may adversely affect the national security of the United States."

If the Government can no longer rely on industrial assertions of trade secret protection to discourage disclosure, the only alternative which the Government would have to prevent the transmittal of sensitive information to unfriendly foreign nations would be to embark upon an extensive program to identify and classify sensitive information as it is being developed by industry. Obviously, this would require extensive governmental review of, and intervention in, the R&D activities of industry.

IV. STRIPPING THE STATES OF THE POWER TO PROTECT TRADE SECRETS WILL FRUSTRATE THE OBJECTIVES OF THE PATENT SYSTEM.

Because the Sixth Circuit viewed the effect of State trade secret laws as suppression of disclosure, it must necessarily have assumed that stripping the States of the power to legislate in the area of trade secrets would enhance the disclosure of valuable technology presently being withheld from the public, thereby contributing to the promotion of new and competitive industry. This assumption is incorrect.

A. State Trade Secret Laws Do Not Suppress Disclosure of Valuable Technology to the Detriment of the Public.

Valuable technology is not now being concealed as trade secrets, to the detriment of the public. The multitude of technical refinements which account for a commercially feasible consumer product, manufacturing process, or equipment design, are the basis for the risk capital investor's competitive position in the market. The public has the benefit of the ultimate goods produced, and the jobs created by their production.

Competitors in the same market are free to pursue, in a legal fashion, the identical technical refinements on their own, or to attempt to purchase the know-how from the original developer. By sound trade secret legislation, these competitors are deprived only of the opportunity to violate a trust, or steal without pretense of trust, the technical refinements which constitute trade secrets. They are deprived only of the power to appropriate the fruits of the capital, time, and physical efforts of another, without the payment of fair consideration.

Trade secret law permits industry to pursue better means to enrich the American people with new products, or with old products made more economically. This law also assures that such a pursuit will be conducted within that framework of honored trust and freedom from wrongful intrusion by others, which supports our overall socio-economic system.

Stripping the States of the power to create such a legal framework augurs more than just moral chaos for industry. Rather than enhancing disclosure of technology to the economic benefit of the country, the consequences of the decision below, if allowed to stand, will be, in some cases, *increased* measures of *secrecy,* and, in *all* cases, either a diminution of R&D investment or a reduction in efficiency.

B. Free and Public Disclosure of Technical Know-How Now Possessed as Trade Secrets Cannot Reasonably be Expected.

The ability of any industrial organization to recover its R&D expenditures depends directly upon its ability to secure a competitive commercial position. It cannot fairly be expected that a company would freely reveal

the technical know-how by which its competitive position is bolstered. Indeed, such disclosure would be irresponsible, and in denegration of the obligations to its investors. The effect of disclosure would be to afford competitors the know-how without cost, and ultimately to force the original developer either to lose the R&D investment or to withdraw from the market—a plainly unacceptable consequence.

C. Withdrawal of Legal Protection for Technology Will Decrease Competition in Our Marketplaces.

Today, enhanced competition in our marketplaces occurs primarily through the entry of new companies. Typically, such new entrants are small and ill-financed. Many fail, but some survive and grow to become major competitive factors in old industries, or even to found new industries.

Small companies, however, are least able to weather the storm that would ensue if legal protection were to be withdrawn from valuable trade secrets. These companies cannot afford to take the same measures to protect technology as their larger counterparts.

The inability of the smaller companies to protect their trade secrets will seriously affect their ability to raise venture capital for investment in new products and processes. Investors having such funds available would surely divert their money to more secure enterprises and investments.

In a recent study, conducted for the National Science Foundation by A. D. Little, Inc., entitled *Barriers to Innovation in Industry,* it was found that, while only a few large companies considered lack of funds to be a major barrier to innovation, virtually all small com-

panies considered financing a significant barrier to research.[66] The additional risks incurred by the inability adequately to protect technical data would surely intensify this problem for the small companies.

If we move toward a society in which we will perpetuate and accelerate the growth of large corporations, while continually increasing barriers to growth and development of new, small companies, the end result will be increased industrial concentration, with resultant increased regulation by government. This will clearly act to the detriment of the consumer.

It should be our goal to provide an atmosphere in which small companies can compete with large established companies. In this way, the smaller companies can gain a foothold in the marketplace, and grow to provide increased competition in either the same or substitute products. This will not be achieved if heavier financial burdens are placed on small companies.

D. Voiding State Trade Secret Laws Will Have a Real and Adverse Effect upon the Economic Welfare of the United States.

Because disclosure is not practicable, and, since the fundamentally dissimilar patent laws do not provide a viable means of protecting technical know-how, now held as trade secrets, industry is really faced with only two alternatives.

One alternative is dire indeed. A significant proportion of industry will simply not be able to assume the risk of capital and time investment in R&D.

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[66] ARTHUR D. LITTLE, INC./INDUSTRIAL RESEARCH INSTITUTE, INC., BARRIERS TO INNOVATION IN INDUSTRY, OPPORTUNITIES FOR PUBLIC POLICY CHANGES 22 (1973).

The other alternative for the remaining proportion willing to take the risk is to increase secrecy measures, and minimize business relationships now founded on confidentiality of disclosure of technical information. No matter how attempted, minimization of disclosure will detract from available R&D investment capital, and will, accordingly, have a drastic impact on technological development, and, in turn, on the industrial and economic welfare of the United States.

Both of these alternatives will produce the precisely opposite effect of that assumed by the court below. Rather than enhancing the broad objective of the patent system to promote the nation's economic welfare and growth, the elimination of trade secret laws will injure the economy, and, thereby, frustrate the goals of the patent system.

V. THE DECISION BELOW IS NOT FOUNDED ON SOUND LEGAL REASONING OR PRECEDENT.

The ruling below is erroneous in that it has misapplied the doctrine and holdings of this Court on federal preemption of State legislative competence.

Although often admitting that federal pre-emption is a most perplexing question,[67] this Court has maintained a wise accommodation between the needs of central control and the vitality of local institutions.[68] Thus, where Congress has not clearly expressed an intent to pre-empt a legislative area, this Court has

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[67] See, Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944); South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938); Kelly v. Washington, 302 U.S. 1 (1937); Townsend v. Yeomans, 301 U.S. 441 (1937).

[68] See, Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944); City of Yonkers v. United States, 320 U.S. 685 (1944).

always insisted that the justification for federal supersession be compellingly clear.[69]

While exclusive federal authority in the field of patents is now resolved,[70] federal authority over trade secrets is certainly not, and the States have traditionally legislated extensively in the area. Where the States have exercised exclusive competence in the past, or where federal and State legislative competence has been concurrent, this Court has always assumed that the historic police powers of the States were not to be superseded, absent a clear and manifest purpose of the Congress to do so.[71] Thus, giving due regard to a proper adjustment of State and federal power in our constitutional system,[72] unless Congress has definitely expressed or clearly implied an intent exclusively to occupy the area, and displace State police power,[73] the State legislative scheme is valid.[74]

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[69] See, Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Jennings v. United States Fidelity & Guaranty Co., 294 U.S. 216 (1935); Florida v. United States, 282 U.S. 194 (1931); Minnesota Rate Cases, 230 U.S. 352 (1913).

[70] Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

[71] Schwartz v. Texas, 344 U.S. 199 (1952); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939). See also, Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947); Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942); Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926); Savage v. Jones, 225 U.S. 501 (1912); Reid v. Colorado, 187 U.S. 137 (1902).

[72] FTC v. Bunte Bros., Inc., 312 U.S. 349 (1941).

[73] Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942). See also, Bethlehem Steel Co. v. New York State L.R.B. 330 U.S. 767 (1947); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939).

[74] See, Algoma Plywood & Veneer Co. v. Wisconsin E. Rel. Bd., 336 U.S. 301 (1949); Eichholz v. P.S.C. of Missouri, 306 U.S. 268 (1939); *rehearing denied*, 306 U.S. 669 (1939).

Nothing in this case indicates that Congress, in enacting the patent laws, left no room for the States to supplement protection of intellectual property.[75] Indeed, the chaotic industrial atmosphere, which would ensue on elimination of that "field of protection" afforded by State trade secret laws, directly addressed by the Sixth Circuit, clearly demonstrates that Congress has not and did not intend to replace State trade secret law with the federal patent laws. The two bodies of law are not co-extensive.

Indeed, the legal groundings of patent and trade secret protection are quite dissimilar. The patent laws protect an inventor's reward for creativity, and primarily vest a property right, while trade secret laws are grounded, if at all, only incidentally in property.[76]

For the same reason, we cannot conclude that the federal interest in patent protection is so dominant that State legislation regarding trade secrets is assumed to be precluded.[77] Trade secret protection antedates modern patent legislation, and we must presume that Congress would have articulated federal dominance, had it wished to do so. Further, the obligations imposed by the federal patent laws do not reveal an intent to preclude State trade secret protection.[78] The

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[75] See generally, Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 655 (1919).

[76] See, *supra*, at p. 8.

[77] Cf. Hines v. Davidowitz, 312 U.S. 52 (1941).

[78] See, New York C.R. Co. v. Winfield, 244 U.S. 147 (1917); Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915); Southern R. Co. v. Railroad Commission of Indiana, 236 U.S. 439 (1915).

patent laws grant a limited exclusive right in order to promote the progress of the useful arts, while trade secret laws protect the obligation of contract, or deter the commission of torts.

Finally, it cannot be said that State legislation in this area produces a result inconsistent with the federal legislative scheme.[79] The patent laws work their historic twofold purpose of rewarding creativity and disclosing invention for the public benefit. The result of trade secret protection is perfectly consistent and complementary: research is stimulated, and its fruits inure to the public benefit in the form of new and improved products and services.

Last Term, in *Goldstein* v. *California*, 412 U.S. 546 (1973), this Court refused to find that State criminal protection against "tape piracy" was pre-empted by the federal Copyright Laws, prior to the extension by Congress of federal copyright protection to sound recordings. The Court argued that nothing in the copyright power suggests that the federal interest is exclusive, and that some copyright subject matter may be of purely local importance.

The same considerations apply here. If the federal interest in protection of intellectual property were exclusive, surely the Constitution or the Congress would have so stated long before now. Moreover, the subject addressed by State trade secret laws is one of purely local importance: construction of contracts and litigation of tort claims.

This Court has repeatedly warned against casual or facile assumptions of federal supersession of State

[79] See, Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Hill v. Florida, 325 U.S. 538 (1945).

legislation. For example, in *Reid* v. *Colorado,* 187 U.S. 137 (1902), this Court said:

> "It should never be held that Congress intends to supersede or by its legislation suspend the exercise of the police powers of the States, even when it may do so, unless its purpose to effect that result is clearly manifested."[80]

In the instant case, it is most difficult to imagine a congressional intent to supersede State trade secret laws. Indeed, Congress has recognized the validity of protecting trade secrets in many federal statutes. Thus, for example, the patent laws themselves bar a contempt citation of a witness who refuses to disclose trade secrets, 35 U.S.C. § 24, and provide for the preservation of patent applications in secrecy, 35 U.S.C. § 122; 18 U.S.C. § 1905 forbids officers and employees of the United States from disclosing trade or know-how secrets; 5 U.S.C. § 522(b) (4) (Public Information Act) exempts from required disclosure by the government "trade secrets and commercial or financial information obtained from a person . . . ."; 15 U.S.C. § 46 (f) gives the Commissioner of the F.T.C. power to publish information received by the Commission, *except trade secrets;* and 15 U.S.C. §§ 78x(a) and 79v deny the Securities and Exchange Commission authority to require disclosure of trade secrets in applications and reports.

The recently enacted environmental legislation carefully exempts from public disclosure technology "entitled to protection as trade secrets", Clean Air Act, 42 U.S.C. § 1857(c); Federal Water Pollution Control Amendments of 1972, 33 U.S.C. § 1322(g)(3). Moreover, Rule 26 of the Federal Rules of Civil Procedure

[80] 187 U.S. at 148.

grants protection against disclosure of trade secrets, and confidential R&D information.

In the face of this express congressional approval of protectibility of trade and know-how secrets, it must be concluded that Congress intended the federal patent laws and State trade secret laws to share the task of protection of intellectual property, and the court below has wrongly concluded otherwise.[81]

CONCLUSION

Amicus Curiae, Chamber of Commerce of the United States of America, respectfully urges this Court to reverse the judgment of the court below, to the extent that judgment relies upon a finding of pre-emption by the federal patent laws of the trade secret laws of the State of Ohio.

Respectfully submitted,

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[81] Cf. Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946).

APPENDIX

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November 1, 1973

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Dear Mr. Troxell:

Kewanee Oil Company v. Bicron Corporation et al

Confirming our telephone conversation of today, the Chamber of Commerce of the United States requests your consent for the Chamber to file a brief Amicus Curiae in the Supreme Court of the United States on the merits of the case.

If you will consent to the filing of a brief Amicus Curiae, I would appreciate your signing the consent statement appearing at the bottom of the letter.

Please return the signed copy of this letter to me for filing in the Supreme Court of the United States with the brief on behalf of the Chamber of Commerce of the United States. This brief will be filed within the time allowed for the filing of the brief of Kewanee Oil Company.

Very truly yours,

Douglas B. Henderson

Douglas B. Henderson

DBH/nkr

CONSENT

Kewanee Oil Company, Plaintiff-Petitioner, hereby consents to the filing of the Amicus brief on the merits by the Chamber of Commerce of the United States.

Edward P. Troxell

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October 24, 1973

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Dear Mr. McCoy:

Kewanee Oil Company v. Bicron
Corporation et al

Confirming our telephone conversation of today, the Chamber of Commerce of the United States requests your consent for the Chamber to file a brief Amicus Curiae in the Supreme Court of the United States on the merits of the case.

If you will consent to the filing of a brief Amicus Curiae, I would appreciate your signing the consent statement appearing at the bottom of the letter.

Please return the signed copy of this letter to me for filing in the Supreme Court of the United States with the brief on behalf of the Chamber of Commerce of the United States. This brief will be filed within the time allowed for the filing of the brief of Kewanee Oil Company.

Very truly yours,

Douglas B. Henderson

Douglas B. Henderson

DBH/nkr

CONSENT

Bicron Corporation et al, Defendants-Respondents, hereby consent to the filing of the Amicus brief on the merits by the Chamber of Commerce of the United States.

Counsel for Respondents

Certificate Of Service

The undersigned hereby certifies that copies of the foregoing were, on this 21st day of November, 1973, mailed by regular airmail to counsel for Petitioner and Respondents as follows: Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio 44115; Mr. William C. McCoy, Jr., Boxworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio 44114.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner,*

AGAINST

BICRON CORPORATION, *et al., Respondent.*

BRIEF OF THE ELECTRONIC INDUSTRIES ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF PETITIONER

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BRIEF OF THE ELECTRONIC INDUSTRIES ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF PETITIONER

I. AUTHORITY TO FILE

This brief is filed on behalf of the Electronic Industries Association as *amicus curiae* pursuant to Rule 42 (2) of this Court and is accompanied by the written consent of both parties, the originals of which are filed herewith.

II. INTEREST OF AMICUS CURIAE

The Electronic Industries Association represents 230 companies engaged in the development, manufacture and sale of electronic equipment. The membership and the industry encompass both small and large companies.

In order to compete in the commercial market, these companies have, by investing substantial research and development funds, established technical competence in many specific areas. Their innovative solutions to many difficult technical problems, for which they have attained a worldwide reputation, involve technical know-how and processes, most of which constitute trade secrets, which are often on the forefront of world knowledge in their respective technical areas.

The decision below eliminates trade secret protection for patentable trade secrets that have been in commercial use for more than one year. The Electronic Industries Association therefore has an important interest in this case because all trade secrets within the industry must be protected if its companies are to maintain their competitive position. These trade secrets and know-how represent the industrial basis on which many highly technological companies within the industry are structured. Furthermore, these trade secrets and know-how provide the challenge and incentives for others to enter this competitive area through innovation.

III. PURPOSE OF BRIEF

The narrow question of law before this Court is whether the Constitution and the federal patent laws pre-empt and make ineffective State laws which protect against disclosure or use of trade secrets in breach

of duties imposed by contract or a confidential relationship. The legal arguments for reversing the decision of the Sixth Circuit have been ably advanced by the petitioner and are not reiterated here. *Amicus curiae* adopts and supports the petitioner's legal arguments, but it has no interest in and expresses no view on the facts of record or the rights of the parties.

The purpose of this brief is to set forth the serious and far reaching ramifications of this case upon the industry represented by *amicus curiae*. In particular, beyond the narrow legal question is the equally important and broader question whether the preemption of State trade secret laws will (1) lead to a counterproductive atmosphere of distrust in the employer-employee relationship, and (2) encourage a broad policy where employees can convert to their own use with impunity valuable property rights, thereby forcing employers to a position of investing less in research and development for fear of loss of such rights.

IV. EFFECTS OF AFFIRMATION

A. Affirmation of the Sixth Circuit Will Benefit Employees Who Misappropriate Employer Trade Secrets and Fundamentally Destroy Employer-Employee Trust in General.

The Sixth Circuit acknowledged that, under Ohio law, the employees wrongfully misappropriated the trade secrets of their employer. Nonetheless, the court in effect held that, as to patentable items which have been in commercial use for over one year, the patent laws must pre-empt State law prohibiting such misappropriation. To the extent it is less costly and time consuming to acquire secrets from employers than from independent research, the decision discourages independent research and development and encourages

misappropriation, which heretofore has been within the general prohibition of the law.

A further practical effect of the lower court's decision would be to immunize employees who misappropriate trade secrets which are *not* patentable. As to secrets in commercial use over one year, it would be a *condition precedent* to an employer's legal action for breach of contract or tortious misappropriation that the trade secret not be patentable. Absent a stipulation of lack of patentability, which is unlikely because such a stipulation would be against the interest of the employer-inventor, the determination of patentability is properly made, in the first instance, *only* by the Patent Office; the additional expense and delay of filing a patent application for the determination of patentability would greatly reduce the effectiveness and desirability of legal action against an employee's misappropriation of trade secrets.

In an environment which encourages misuse of patentable trade secrets and does not discourage misuse of unpatentable trade secrets, employees have little incentive to innovate on behalf of their employer or to share their discoveries with their employer and much incentive to embark on their own after acquiring valuable information. The trust and loyalty which are so vital between an employer and his employee and which are encouraged by existing legal principles will be seriously eroded by such incentives.

Present trade secret law appropriately balances the need to discourage incentives to employer disloyalty with the need to provide employees with the necessary freedom to utilize their talents and knowledge on their own behalf or in the employ of another. See, for ex-

ample, Note, *Computer Programs and Proposed Revisions of the Patent and Copyright Laws,* 81 Harv. L. Rev. 1541, 1555 (1968). Affirmation of the lower court will destroy this balance.

B. Rewards and Incentives for Diligent, Fruitful Industrial Research Will Be Eroded by Affirmation of the Sixth Circuit's Decision.

Given the lack of employee incentive to share discoveries with employers and the incentive to misappropriate employers' patentable trade secrets, employers will be reluctant to engage in research because very little research can be done without the assistance of knowledgeable employees who are capable, if ill-motivated, of misappropriating the employers' research. In addition, the impracticality of legal action for misappropriation destroys the incentive to take the risk of investing in research and development as to trade secrets which are not patentable.

If important and valuable research can be misappropriated with impunity merely because it has been in commercial use for more than one year, the employer is faced with the difficult choice of applying for a patent on *every* invention, even if it is probably not patentable, or risking the total loss of the "headstart" which is an important incentive for large research and development expenditures. See, Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy,* 80 Harv. L. Rev. 1432, 1462 (1967). However, in this particular industry, aside from the expense and delay of acquiring a patent that any industry faces, patents are not sought on all patentable items because the difficulty of policing a patent in this industry makes it impractical from a business

standpoint to patent any but the more significant trade secrets. Moreover, due to the innovation and quick turnover of this industry, the primary advantage over competitors consists of the headstart; thus, research would be discouraged if the mere fact of failure to seek a patent constitutes an invitation to employees to misappropriate and thereby destroy the headstart.

Present trade secret law balances the need to protect new developments in order to provide incentives to develop, against the need to assure broad competition and foster new entry by enthusiastic and enterprising researchers. Moreover, present trade secret law appropriately permits an inventor to choose either a patent, which excludes the whole world for a finite period of time, or a trade secret, which excludes only those whose misappropriation would be a breach of contract or a tort, for a theoretically unlimited time but with risks of leaks and independent discovery by others. Affirmation of the Sixth Circuit's decision would both destroy the balance and eliminate the choice.

C. Affirmation of the Sixth Circuit's Decision Will Impose Severe Additional Burdens Upon the Patent System.

As stated above, an employer who fears risks will be forced to apply for a patent on *every* trade secret, not only those which are potentially patentable, but those which are probably not patentable, for the following reasons. First, employees can, with impunity, misappropriate anything which is patentable after one year of commercial use; therefore, it is necessary to know whether a trade secret is patentable in order to determine whether to obtain trade secret agreements. Second, legal action for misappropriation may not be brought until patentability is determined. Absent a

stipulation of patentability, this determination can only be made, in the first instance, by the Patent Office, and *must* be made for *every* trade secret, despite the improbability of patentability. This tremendous increase in the number of patent applications will severely and unnecessarily impose additional burdens upon the Patent Office and cause even greater delays in the award of patents. As stated by Judge Friendly in his opinion in *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 at 224:

> "There can be no public interest in stimulating developers of such know-how to flood an overburdened Patent Office with applications [on] what they do not consider patentable."

Moreover, particularly in a legal action for misappropriation, it would be to the benefit of an employer-inventor to have an unpatentable trade secret, while the employee who misappropriates would benefit if the trade secret were patentable. Therefore, the employer-inventor would be ironically arguing against the patentability of his own invention (while the misappropriator would be contending that the trade secret deserves a patent), and the additional deluge of patent applications would include many in which the applicant intentionally presents the case in such a manner as to assure unpatentability. This will be particularly true because, in a situation which is limited to trade secrets that have been in commercial use over one year, the patent application can provide no benefit except, if the application is denied, to facilitate legal action for misappropriation.

A further burden on the Patent Office is the need to establish a new class of decision which does not now

exist, i.e., "Patentable but Ineligible Due to Violation of the One-Year Limit." Under existing law, commercial use for over one year destroys patentability. The decision of the Sixth Circuit will additionally burden the Patent Office with a new class of application which is presently rejected on its face, and require the Patent Office to decide whether the trade secret *would have* been patentable, but for the one year limit, despite the fact that the time and energy of the Patent Office will have thereby been expended upon a trade secret which can never be awarded the benefit of patent protection.

D. Affirmation of the Sixth Circuit's Decision Will Discourage Research Within the United States.

The members of the Electronic Industries Association are presently conducting operations in several foreign countries, including Canada, most European countries, and Japan, where trade secret agreements between employers and employees protect patentable trade secrets although they have been in commercial use over one year. In order to avoid the unattractive choice between the risk of developing trade secrets without obtaining a patent, or enduring the expense and delay of obtaining a patent on every trade secret, many researchers will prefer these foreign countries and others which similarly protect trade secrets. See *Attorney General's National Committee Antitrust Reports,* 86-88 (1955).

V. CONCLUSION

Affirmation of the decision of the Sixth Circuit will have seriously detrimental ramifications upon the need of the electronics industry to protect its trade secrets. It will benefit employees who misappropriate employer

trade secrets and fundamentally destroy employer-employee trust in general; rewards and incentives for diligent, fruitful industrial research will be eroded; severe additional burdens will be imposed upon the patent system; and research within the United States will be discouraged.

For the reasons stated above, *amicus curiae* respectfully submits that the judgment of the Court below be reversed.

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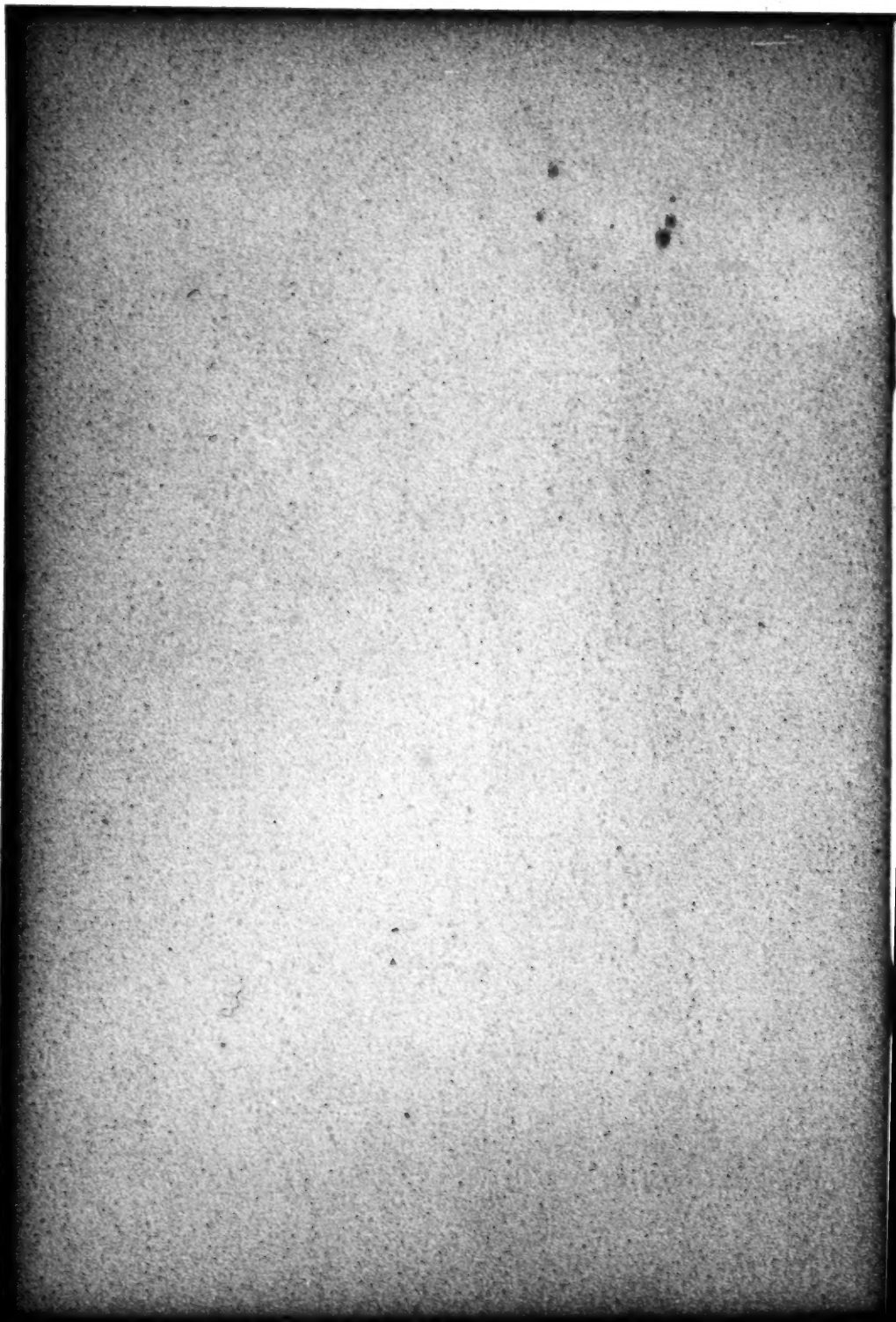

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IN THE

Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

against

BICRON CORPORATION, *et al.*,

Respondent.

BRIEF FOR THE NEW YORK PATENT LAW ASSOCIATION AS *AMICUS CURIAE*

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IN THE

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BRIEF FOR THE NEW YORK PATENT LAW ASSOCIATION AS *AMICUS CURIAE*

I. Authority to File

This brief is being filed on behalf of the New York Patent Law Association, as *amicus curiae,* under Supreme Court Rule 42(2), with the written consent of the parties. Copies of the consent letters are attached.

II. Purpose of Brief

The purpose of this brief is not to take sides on the questions of whether petitioner's trade secrets exist or have been maintained or appropriated, but to urge this Court to reject the ruling in this case by the Court of Appeals for the Sixth Circuit that the trade secret laws of Ohio are in such conflict with the Patent Laws of the United States as to be preempted by the Patent Laws under the

Supremacy Clause of the United States Constitution. *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F.2d 1074, 178 U.S.P.Q. 3 (6 Cir. 1973).

III. Interest of the New York Patent Law Association

The New York Patent Law Association was established to maintain standards for those specializing in the law of intellectual property, and particularly patents, trademarks, copyrights, confidential disclosure agreements and trade secrets. We presently have approximately 1200 lawyer members, who have active practices in this field and, as such, have day-to-day contact with the operation and impact of the patent and trade secret laws, and the relationship of these laws to each other.

The decision of the court below, which acknowledged that it is in conflict with prior decisions of four other Courts of Appeals[1], has cast a cloud of uncertainty[2] over what heretofore has been considered a well established area of law, predicated upon the principle that a trade secret may be protected by State law—even though it is an appropriate subject for a patent and even though it has been used commercially, but secretly, for an extended period of time.

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[1] *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2 Cir. 1971); *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4 Cir. 1964), *cert. denied* 383 U.S. 934 (1966), *rehearing denied*, 384 U.S. 914 (1966); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F.2d 163 (5 Cir. 1969); *Dekar Industries, Inc. et al* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9 Cir. 1970), *cert. denied* 402 U.S. 945 (1971).

[2] Consider, for example, the problem of harmonizing the Court of Appeals decision in this case with the decision rendered by a different panel of the same court, just three weeks after its decision in this case, affirming a criminal conviction and imprisonment based upon the theft of a trade secret. *United States* v. *Greenwald*, 479 F.2d 320 (6 Cir. 1973), *cert. denied* U.S. (1973).

Our concern with this decision rests not only upon our interest in the proper development of the patent and trade secret laws, but also upon its serious and far reaching impact, both nationally and internationally. Vast sums have been spent, by both individuals and corporations, in the research and development of confidential technological resources worth billions of dollars, which are being used in the production of myriad products of great benefit to the public. The stripping away of trade secret protection for these resources would, in our view, lead to massive and irreversible damage to essential technological underpinnings of the nation's economy.

IV. Court of Appeals Disposition

After ruling that the findings of fact of the District Court are not clearly erroneous, within the meaning of Federal Rule 52, and thus sustaining the District Court's findings that 20 of the 40 trade secrets claimed by Kewanee were indeed trade secrets and had been appropriated by the individual and corporate defendants, the Court of Appeals stated that:

> . . . in addition to the issues already discussed there is a very serious and important issue of a claimed conflict with the provisions of the Constitution of the United States relating to patents, Article I, Section 8 (Clause 8) . . . and the Patent Laws adopted pursuant thereto, Title 35 U.S.C. § 101 et seq., and whether that conflict requires the application of the provisions of the Supremacy Clause of the Constitution, Article VI, (Clause 2) . . . 478 F.2d at 1078.

In its resolution of this issue, the Court held that the trade secret laws of Ohio, at least as applied to the trade secrets involved in this suit, have, in view of the Supremacy Clause, been preempted by the Patent Laws adopted by Congress pursuant to Constitutional authorization.

In reaching this conclusion, the Court stressed what it considered to be two important characteristics of the trade secrets under consideration, first that they involve processes, procedures and manufacturing techniques which constitute "patentable" subject matter, in the sense that they are appropriate subjects for patenting within Section 101 of the Patent Act, and second that these trade secrets had been in commercial (albeit secret) use for more than one year prior to the law suit. 478 F.2d at 1078.

The Court reasoned that since the trade secrets constituted patentable subject matter, and since they had been in commercial (albeit secret) use for more than one year, the inventor had "forfeited his right to a patent" in this subject matter, and the substantial equivalent of patent protection could not, in effect, be recaptured by invoking the Ohio trade secret laws. 478 F.2d at 1086.

Thus, a key premise of the Court's decision is that the rights protected under the Ohio trade secret laws are the substantial equivalent of patent rights, and the Court thus referred to these rights as protecting an inventor in "the maintenance of a monopoly" and according him the right "to exclude competition". 478 F.2d at 1086. It is upon this premise that the Court concluded that federal preemption of the Ohio trade secret laws exists.

V. Question Presented

In view of the foregoing disposition of this case by the Court of Appeals, the central question presented to this Court is the issue succinctly stated by the Court of Appeals as the issue it faced, namely:

> . . . Whether a state trade secret law which protects an invention which would be an appropriate subject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year conflicts with the policies and

purposes of Article I, Section 8 (Clause 8) of the Constitution and the Patent Laws adopted pursuant thereto. 478 F.2d at 1078-9.

VI. Summary of Argument

A. This case cannot be viewed in the abstract since it involves an area of law which has existed as a means for protecting confidential technology, used for the benefit of both the trade secret owners and the public, for over a century—and since the abolition of this law would have untold consequences.

This area of the law began in the United States at least as early as 1868 in *Peabody* v. *Norton* 29 Mass. 452 (1868), where the question of federal preemption by the Patent Laws was argued and rejected, and it continued through many decisions of this Court over the years. Also, through many new Patent Acts and amendments—none of which questioned or disturbed either this Court's decisions or the long-established and well-known reliance on trade secrets in industry. The consequences of a change in this law, without Congressional hearings and supportive legislation to fill the voids, would be dire not only to American industry, but also to the public, who are the ultimate beneficiaries of the technology involved.

B. The trade secrets laws of Ohio are not in conflict with Article I, Section 8, Clause 8 of the Constitution.

This Court's recent decision in *Goldstein* v. *California* 412 U.S. 546 (1973), involving the copyright aspects of Clause 8, is dispositive of this point.

C. The trade secret laws of Ohio are not in conflict with the Patent Laws or, as a consequence, void under the Supremacy clause.

This section discusses the nature of the patent grant; the vast differences between patents and trade secrets; the

objectives of the Patent Laws and how trade secret protection is compatible with these objectives. Also, it discusses the fact that the Patent Law objectives of a prompt and full disclosure, and ultimate dedication to the public, are requirements incident to the grant of a patent. Thus, if a patent is secured in violation of one of these requirements, the objective is indeed frustrated, but Congress has left to each inventor the choice as to whether he will keep his invention secret or disclose and dedicate it in exchange for patent protection.

Further, this section discusses the fact that Congress has not in its enactment of the Patent Laws so occupied the field of exclusive rights in discoveries of a "patentable" nature as to preempt State trade secret protection for such discoveries (listing many federal statutes which recognize trade secrets). Lastly, it concludes that trade secret protection for "patentable" subject matter is not in conflict with, or preempted by, the Patent Laws.

D. The Court of Appeals erred in its application of the rulings of earlier cases to the circumstances of the present case.

The Court of Appeals appears to have misinterpreted the early Supreme Court cases of *Grant* v. *Raymond,* 31 U.S. 218 (1832) and *Kendall* v. *Windsor,* 62 U.S. (21 How) 322 (1858). Also, the Court improperly extended the Patent Law preemption cases of this Court beyond the pale of their concern with State laws granting protection "identical to" or "the equivalent of" patents, to the area of trade secret protection, which is clearly not identical to or the equivalent of patent protection. Further, it erred in applying the one-year commercial use rule to trade secrets.

VII. Argument

A. This case cannot be viewed in the abstract since it involves an area of law which has existed as a means for protecting confidential technology, used for the benefit of both the trade secret owners and the public, for over a century—and since the abolition of this law would have untold consequences.

In its opinion in this case, the Court of Appeals discussed the development of the law of trade secrets both in England and the United States, and in so doing, referred to the landmark trade secret case of *Peabody* v. *Norfolk*, 29 Mass. 452 (1868) as being one of the earliest trade secret cases in this country. While the Court then stated that it could find no case in which there has been a "definitive discussion of the possibility of conflict between the Patent Laws of the United States and the trade secret laws of the several states", 478 F.2d at 1081, this should not be understood to mean that this question has never been raised or considered. On the contrary, the *Peabody* case faced this question and sanctioned the coexistence of patents and trade secrets in 1868, and this coexistence has been accepted for over a century.

In this connection, the defendant in the *Peabody* case argued that:

> . . . the protection of such a secret, is against the policy of the patent laws. The allegations of the bill indicate machinery and process which are patentable. Having made a patentable invention, if Peabody chooses to try to keep it forever secret, and attempt to exclude the public forever from its use, the court, in the language of *Williams.* v. *Williams,* will not "struggle" to protect such a secret, 29 Mass. at 456-7.

In response to this defense, and the others raised on behalf of the defendant, the Supreme Judicial Court of Massachusetts stated that:

> It is the policy of the law, for the advantage of the public, to encourage and protect invention and commercial enterprise. . . . If he makes a new and useful invention of any machine or composition of matter, he may, upon filing in a public office a description which will enable an expert to understand and manufacture it, and thus affording to all persons the means of ultimately availing themselves of it, obtain letters patent from the government securing to him its exclusive use and profit for a term of years. If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons. 29 Mass. at 457-8.

The *Peabody* case thus observed the differences between trade secrets and patents, and gave clear recognition to the availability of trade secret protection as one alternative, in addition to patent protection, "to encourage and protect invention and commercial enterprise". *Ibid.* Significantly, that decision was rendered in a State where an Act had been passed as early as 1641 prohibiting the grant of monopolies except for a short time for profitable inventions. 478 F. 2d at 1081.

Moreover, the protection of trade secret rights has been repeatedly recognized by this Court, where there has been a breach of contract or trust, even though the *Peabody* concept of "property" rights in trade secrets has been

questioned. Thus, in *Board of Trade* v. *Christie Grain & Stock Co.*, 198 U.S. 236, 250-1 (1905), this Court held that:

> . . . the plaintiff's collection of quotations . . . stands like a trade secret . . . The plaintiff does not lose its rights by communicating the results to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach.

Thereafter, in *DuPont Powder Co.* v. *Masland,* 244 U.S. 100, 102 (1917), which involved secret processes for the manufacture of artificial leather, presumably "patentable" subject matter, Mr. Justice Holmes stated that:

> The word property as applied to trade-marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith . . . Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them.

Further, in *Becher* v. *Contoure Laboratories,* 279 U.S. 388, 391 (1929), which involved "patentable" subject matter in the form of a machine, Mr. Justice Holmes, again speaking for a unanimous Court, stated:

> It is plain that the suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of [the inventor's] claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust.

Also, in *United States* v. *Dubilier Condenser Corp.,* 289 U.S. 178, 186-7 (1933), after outlining the power ac-

corded Congress under Clause 8, Section 8, of Article I of the Constitution, the Court recognized the availability of trade secrets and patents as alternative forms of protection for the same subject matter, stating:

> An inventor . . . may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but upon the expiration of that period, the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use.

Thus, this Court has sanctioned trade secret rights in subject matter which falls within the purview of the patent laws, as an alternative to patent protection—the latter being open to inventors who choose to disclose their inventions in exchange for the right to exclude all others for a fixed term set by Congress.

Since the decision of the *Peabody* case, and in keeping with the forgoing decisions of this Court and others, lawyers have advised their clients as to these alternatives —recognizing the need to closely guard trade secrets if this alternative is chosen, and the risk of losing the trade secret if at any time it is innocently discovered or reverse-engineered or independently developed.

This advice, along with a general awareness of the established law of trade secrets, has led many corporations and individual inventors to disclose important trade secrets to employees and others, under appropriate agreements and other safeguards, with a confidence that the secrets would not thereby be compromised.

Further, it has also led to full-scale efforts, at considerable expense, to develop and market complete know-how packages for various technologies, sufficient to enable interested licensees to enter new fields with minimum delay

and development expense, the packages including many manufacturing details, tolerances, etc. that would never reach the conceptual level generally required for patent protection, although falling within the "patentable" subject matter scope.

In addition, it has led to a reliance upon trade secrets, rather than the patents, in many other instances, sometimes because of the high costs and delay involved in securing patents. For example, there is substantial reliance upon trade secret protection for computer programs and other computer software, in perhaps the most significant technological field of modern times—only a limited aspect of which has been held by this Court to constitute "unpatentable" subject matter. See *Gottschalk* v. *Benson,* 409 U.S. 63 (1972). New developments in programs are essential to the growth of the computer field, and it is well known that the cost of these developments is enormous. To date these costs have been borne by companies large and small. See *Software Protection by Trade Secret, Contract, Patent* (1969) by Patent Resources Group, Washington, D.C.; David Bender, *Post-Adkins Trade Secret Protection of Software,* 1970 Rutgers Journal of Computers and the Law (Spring 1970) 5.

In all of these areas and others, if the trade secret laws fall, how can those who have relied upon them be made whole? And, without trade secret protection, will the effort continue to be spent, or will the results of such efforts be lost?

Further, the trade secret laws have given rise to considerable trade secret licensing of foreign companies, often in countries where the inventor has secured no patent protection. Indeed, in many instances, especially in low technology countries, foreign companies consider patent licenses without trade secret know-how to be of little value. In

Painton & Co. v. *Bourns Inc., supra,* 442 F. 2d at 226, the Court alluded to the benefits foreign companies would derive from an abolition of our trade secret laws, calling attention to an estimate in an *amicus* brief that this could result in the loss of as much as $1 billion in annual income to American companies, a sum which would have a significant effect on the balance of trade for this country. It is not clear how this fruitful exchange can continue if the trade secret laws fall.

In some industries, trade secrets also play an essential role in competitive bidding against foreign companies for the construction of extensive chemical processing plants outside of the United States. In these situations, the contractor is often selected on the basis of the superiority of his trade secret processes, in comparison with those of his competitors. A demise of the trade secret laws of this country would put American companies at a great disadvantage in competing for such foreign business.

Moreover, other considerations must also be faced, including the paralyzing effect the demise of trade secret protection will have on one's willingness to disclose unpatented ideas to others in confidence, when the confidence can be violated with impunity; the extent to which even a surreptitious appropriation of one's trade secrets can be redressed, when it concerns legally unprotectible rights; and many other matters.

In all of these areas, a failure of the trade secret laws would have a tremendous adverse impact on American industry and the public, totally inconsistent with the fact that trade secrets, until now, have been consistently sanctioned by the courts—and apparently also by Congress, through its adoption over the years of numerous patent statutes and amendments,[3] none of which have questioned

[3] See the Patents Acts of 1790, 1793, 1836, 1870 and 1952 (1 Stat. 109, 318; 5 Stat. 117; 16 Stat. 198; 35 U.S.C.) and over 60 amendatory enactments.

or rejected the trade secret rulings of this Court, or the well-known industry reliance upon trade secrets.

In view of these considerations and others, the abolition of the law of trade secrets should not be undertaken in the absence of the clearest possible indication from Congress that such a result was intended [4]—and, indeed, not without Congressional hearings for all of those affected, and subsequent positive Congressional action in the form of legislation [5] designed to fill the voids created by the loss of the trade secret laws.

B. The trade secret laws of Ohio are not in conflict with Article I, Section 8, Clause 8 of the Constitution.

For convenient reference, we set forth Article I, Section 8, Clause 8 of the Constitution, as follows:

> The Congress shall have Power . . .
>
> To promote the Progress of Science and useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

The most recent of this Court's decisions dealing with this clause was *Goldstein* v. *California,* 412 U.S. 546 (1973), decided subsequent to the Court of Appeals decision in the present case. In the *Goldstein* case, the Court upheld a California statute outlawing tape piracy, or the unauthorized duplication of popular tape recordings, over attacks based upon assertions of both Constitutional and Congres-

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[4] See, e.g., *Parker* v. *Brown,* 317 U.S. 341 (1943); *Schwartz* v. *Texas,* 344 U.S. 199 (1952).

[5] In this regard, it is noteworthy that this question is presently before Congress in the so-called Administration bill for a new Patent Act, which has been agreed upon by all of the affected governmental agencies and which proposes, in Section 301, a positive pronouncement by Congress that "This title shall not be construed to preempt rights or obligations arising by operation of the State law concerning trade secrets." Patent Modernization and Reform bill S. 2504 (1973).

sional preemption—the recordings in question being unprotected by federal copyrights.

On the question of Constitutional preemption by the foregoing Clause 8, which the Court of Appeals projected as an issue in the present case but did not actually treat, this Court's decision in *Goldstein* found no express provision in the Constitution that the powers granted Congress under this clause are exclusive, or that State action in this area is prohibited. *Goldstein* v. *California, supra,* 412 U.S. at 555-558.

This holding necessarily applies to both "authors" and "inventors" alike, as they share the same Constitutional clause, and therefore, consistent with this Court's holding in *Goldstein* as to "authors", there is no express provision in the Constitution which accords Congress the exclusive power, or precludes State action, to reward "inventors" with "exclusive rights" in their discoveries.

Further, in the *Goldstein* decision this Court ruled that State action in granting copyright protection, in matters of purely local interest, would not *necessarily* conflict with the presence of copyright granting authority in the federal Government—so that there is not such a total contradiction and repugnance in the concurrent exercise of State and Federal copyright powers as to warrant an inference that all State powers in this regard have been relinquished to exclusive federal control. *Goldstein* v. *California, supra,* 412 U.S. at 559. This holding should also be deemed applicable to "inventors" as well as "authors," and hence to patents as well as copyrights, especially since the Court in *Goldstein* relied upon the prevalence of State issued patents in the 18th century in support of its finding of legitimate State interests in granting exclusive rights in writings of a purely local interest. One must conclude, therefore, that the grant of exclusive rights in discoveries by the States is similarly not inherently in conflict with like authority in the federal Govern-

ment, so as to make concurrent state and federal authority to grant such exclusive rights so totally repugnant as to be precluded by Clause 8.

The question of the unlimited time duration of the California tape piracy statute was also raised in *Goldstein*, as being an area of conflict with Clause 8, since this Clause speaks of "limited times". The Court pointed out, however, that the limited time duration provision of Clause 8 applies only to Congressional, and not State, action. And, further, the dangers in a federal exclusive grant of unlimited duration are far greater than those of a State, in view of the pervasive nature of such a federal grant. Thus, no conflict with Clause 8 was found to exist on this basis. The same is true as to trade secrets, especially in view of the very circumscribed nature of any right to exclude others which may be created by the trade secret laws, as well as the susceptibility of trade secrets to termination at any time they become publicly known, as will be discussed.

Therefore, the protection of trade secrets by the States, even if viewed as a form of exclusive rights in the discoveries of inventors, is not in conflict with Article I, Section 8, Clause 8, of the Constitution.

C. The trade secret laws of Ohio are not in conflict with the Patent Laws or, as a consequence, void under the Supremacy Clause.

As indicated in the Court of Appeals decision, the Supremacy Clause of Article VI of the Constitution provides that "This Constitution, and the Laws of the United States which shall be made in pursuance thereof . . . shall be the Supreme Law of the Land. . ."

The current Patent Act, called the 1952 Patent Code, was adopted by Congress pursuant to Article I, Section 8, Clause 8, of the Constitution and, consequently, if State trade secret laws "interfere with, or are contrary to" this

Act, they must fall. See *Gibbons* v. *Ogden*, 9 Wheat 1, 211 (1824).

The recent *Goldstein* case also treated the question of federal Supremacy, in the context of copyrights. After pointing out that there is no simple formula for making this determination, since the considerations vary from field to field, the Court quoted the following rule from *Hines* v. *Davidowitz*, 312 U.S. 52, 67 (1941):

> Our principal function is to determine whether, under the circumstances of the particular case, [the state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.

This rule was also discussed in *Perez* v. *Campbell*, 402 U.S. 637, 649 (1971), where the Court observed that since the *Hines* decision in 1941 this statement of the rule has frequently been reiterated.

As indicated by the Court in the *Goldstein* decision, patent Clause 8 describes both the objective Congress must seek and the means to achieve it. *Ibid* 412 U.S. at 555. We turn first to the "means" to achieve the stated objective of promoting science and the useful arts, since an understanding of the nature and function of patents and trade secrets will make a discussion of their objectives more meaningful.

The means, as expressed in Clause 8, is that of securing to inventors the "exclusive right to their . . . discoveries" for limited times. This means has been implemented by Congress in its enactment of the current Patent Act, which provides for the granting of patents that convey "the right to exclude others from making, using or selling the invention throughout the United States" for the term of seventeen years. 35 U.S.C. 154; and see *United Shoe Machinery Co.* v. *United States*, 258 U.S. 451, 463 (1922); *Crown Co.* v. *Nye Tool Works*, 261 U.S. 24, 34-5 (1923).

This "right to exclude" in the patent grant is enforceable against the public generally, without regard to whether the accused product has been copied from the patentee or independently developed. Further, it pertains to subject matter known to the public. Thus, although a patent owner may sell his products in the open market, they may not be copied, except by a licensee, because of his "right to exclude" all others.

Trade secret rights are wholly different. No right to exclude the general public exists in the law of trade secrets. *Peabody* v. *Norfolk, supra.* Anyone who independently conceives a trade secret can practice it with impunity, and anyone who obtains access to it through legitimate means and not under a pledge of secrecy, can duplicate it at will. Further, all are free to attempt to learn the secret, by any legitimate analysis or inspection, or reverse-engineering, or any other legitimate means—and once the secret is learned it may be practiced free of any obligation.

If one cannot practice a trade secret of his competitor, it is because he cannot discern what it is by legitimate means and duplicate it—and not because of any legal "right to exclude" inherent in the trade secret itself. Its strength, therefore, lies in the fact that it is secret, and once it becomes publicly known it is lost. *DuPont* v. *United States,* 288 F.2d 904, 129 USPQ 473 (Ct. Claims 1961). Thus, if a trade secret owner places his products on the open market, or the trade secrets otherwise legitimately come to public attention, he has no "right to exclude" others from copying them.

A trade secret is thus said to bind no one except one who has learned of it in confidence—with the exception that, as in other things of value, it cannot be pilfered without liability, *Painton & Company* v. *Bourns Inc., supra,* 442 F.2d at 223; and see, Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy,*

80 Harv. L. Rev. 1432 (1967). Similarly, its only "right to exclude" is in relation to one who has received it in confidence AND violated that confidence. And, even in such a case, the exclusionary relief available is generally limited to an injunction for the "head-start" period of time the violator gained by his access to the trade secret—and this may be denied if the value of this head-start can be assessed and money damages are deemed adequate. See, *e.g.*, *Data General Corp.* v. *Digital Computer Controls, Inc.*, 297 A.2d 437, 175 U.S.P.Q. 486 (Del. Sup. Ct., 1972).

In short, contrary to the main premise of the Court below, trade secret rights do not provide their owners with an ability to "exclude competition" which is in any way comparable to that found in patent grants. 478 F.2d at 1086.

Turning to the objectives of the Patent Laws, the ultimate objective is, of course, to promote the progress of science and the useful arts, as recited in Clause 8.

The operation of the trade secret laws is consistent with this objective. Commercial rewards that can be derived from trade secrets promote the development of technological innovation and its use in the trade, thus promoting science and the useful arts while benefiting the public. Further, a competitor's announcement of a new or less expensive product, which has been manufactured by a secret process he has created, provides a real incentive for one to match or better its performance. Indeed, when a product embodying a trade secret is marketed, progress in science and the useful arts is promoted in some measure because the product can be freely copied and utilized in new applications, or improved to create new products.

This is not to say that trade secrets act to promote science and the useful arts in exactly the same way that patents do, or that quantitatively they do so to a greater or lesser extent than patents do, but experience certainly

indicates that they have the effect of promoting science and the useful arts.

An objective of the Patent Laws has also been said to be "to secure to the public the advantages to be derived from the discoveries of individuals." *Grant* v. *Raymond*, 31 U.S. 218 (1832). Here again, the trade secret laws are consistent with this objective, since the discoveries protected by them are ones being used for the public. Indeed, some authorities have asserted that technological secrets are not cognizable by the Courts as trade secrets until they have been used in the trade, and their fruits thus brought to the public. Louis Orenbush, *Trade Secrets and The Patent Laws*, Journal of the Patent Office Society, Oct. 1970, Vol. 52, No. 10, p. 638, 666.

Further, an objective of the Patent Laws has been said to be that of encouraging capital investment in new discoveries, *Picard* v. *United Aircraft Corp.*, 128 F.2d 632 (2 Cir. 1942), and again trade secret protection is not contrary—although the relative effectiveness of patents and trade secrets in this area is difficult to measure.

Other important objectives are to induce full disclosure of new inventions, and to effect their dedication to the public after a fixed time, *in return* for the patent grant. *Pennock* v. *Dialogue*, 27 U.S. (2 Peters) 1 (1929); *Grant* v. *Raymond*, *supra*; *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945).

It is in this regard that trade secrets have sometimes been said to fall short, as failing to comport with either of these objectives. This, however, is not the case.

Considering the disclosure objective first, it must be recognized that while the intention of the Patent Laws is to encourage disclosure by the offer of a patent grant, Congress has expressed no intention, through its adoption of the Patent Laws or otherwise, to *compel* disclosure. Rather, as noted earlier, the choice has been left to the inventor.

Thus, this Court made it clear in *United States* v. *Dubilier Condenser Corp., supra,* 289 U.S. at 186, that "An inventor . . . may keep his invention secret and reap its fruits indefinitely". And see Mr. Justice Black's opinion in *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 677 (1969) to the same effect.

If one were to secure a patent on the basis of less than a full disclosure of his invention, he would surely be thwarting this Congressional objective. See 35 U.S.C. 112; *Grant* v. *Raymond, supra.* However, if he merely chooses to maintain his invention secret, without the benefit of patent protection, he is but selecting an alternative Congress left open to him. In the words of Judge Leonard Hand in *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.,* 153 F.2d 516, 520 (2 Cir. 1946) "he must content himself with either secrecy, or legal monopoly". And see *Peabody* v. *Norfolk, supra.*

In addition, a practical consideration relevant to the matter of disclosure is that inventions disclosed to the Patent Office, upon the filing of a patent application, are maintained in secret until a patent is granted. 35 U.S.C. 112; *Plastic and Metal Fabricators Inc.* v. *Roy,* 175 U.S.P.Q. 49 (Conn. Sup. Ct., 1972). While on one hand this has been urged as indicative of a Congressional intent to maintain open the inventor's choice, between a trade secret and patent, at least until it has been determined that a patent will be accorded, on the other hand, it should not be overlooked that this pendency may be as long as two or three years, or longer. See *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 658 (1969). One must therefore wonder whether trade secrets do not often reach the public in a shorter time than do disclosures to the Patent Office. The answer to this question, however, is beside the mark, since the true Congressional intent is to leave the choice of disclosure to the inventor unless a patent is sought.

Turning to the objective of securing a dedication of the invention to the public after a fixed period of exclusivity, this objective, like that of a full disclosure, is coupled with the grant of a patent. Thus, if one were to secure a patent and then attempt to avoid the required dedication, a clear frustration of this Congressional objective would be present. Indeed, if a State law was effective to bring about this result, the State law would fall under the Supremacy Clause. *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169 (1896); *Kellog Co.* v. *National Biscuit Co.*, 305 U.S. 111 (1938); *Scott Paper Co.* v. *Marcalus Mfg. Co., supra.*

Where, however, one is not in the position of having secured a patent, but instead has just made an invention, as discussed above, he has a choice of maintaining it secret or patenting it—and the requirement of dedication after a fixed period, as that of full disclosure, comes about only when the choice of patent protection has been made.

Moreover, even though the duration of a trade secret is indefinite, though not perpetual, it is a rare case, especially in today's technology, where a trade secret can outlast the 17 year life of a patent.

Nor is there any conflict between trade secret protection and the requirement of a prompt disclosure after a public use, when a patent is desired—which the Court of Appeals found to be of great significance in this case. In this regard, the Court relied on 35 U.S.C. 102(b), which precludes the filing of a patent application more than one year after an invention has been placed on sale or appears in a publication or in public use.[6] This requirement of a

[6] Since the *use* in the present case was secret, and not public, it cannot serve to bar the filing of a patent application by an independent inventor who had no knowledge of it. See, e.g. Judge Hand's opinion in *Gillman* v. *Stern*, 114 F. 2d 28, 46 U.S.P.Q. 430 (2 Cir. 1940). Thus, it cannot properly be designated a "public use" within 35 U.S.C. 102(b). It is for this reason that Judge Hand characterized it as a *forfeiture* by the inventor in *Metallizing En-*

prompt disclosure has no meaning when it is applied to trade secrets, since the subsistence of a trade secret is predicated upon non-disclosure. Rather, this is another instance where the requirement is an incident of an inventor's choice to secure patent protection. Here again, one has the choice of maintaining his invention secret, or filing a patent application with a prompt and full disclosure. Thus, in *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts, supra,* Judge Learned Hand stated that:

> . . . it is a condition upon an inventor's right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly. 153 F. 2d at 520.

In summary, there is no conflict between the trade secret laws and either the Constitutionally expressed objective or other recognized objectives of the Patent Laws, and, in fact, as long ago recognized, trade secrets and patents are alternative forms of protection, each having its own nature and scope of operation. See *Reid* v. *Colorado,* 187 U.S. 137, 150 (1902).

Nor can it be presumed that in adopting the Patent Laws, Congress attempted to so occupy the field of intellectual property rights in "patentable" technology as to preclude State trade secret protection in this area. As this court has indicated on several occasions, such an unexpressed intention to preempt State power is not lightly to be attributed to Congress. See, *e.g., Parker* v. *Brown, supra.*

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gineering, analogizing it to the public use bar of Section 102(b), after there had been secret commercial use for a one-year time duration. While some courts have simply referred to it as a Section 102(b) "public use" bar applicable only to the users and those in privy with them, see, e.g. *Robine* v. *Apco Inc.,* 386 F. 2d 267 (2 Cir. 1967); *Pickering* v. *Holman,* 459 F. 2d 403 (9 Cir. 1972), it should nevertheless be understood that this use is not one which discloses the invention to the public.

In the present case the opposite intention appears clear. As indicated above, long prior to the adoption of the 1952 Patent Code the decisions of this Court spoke on the subject of and upheld trade secrets, both as to patentable and non-patentable subject matter. And the same is true as to other courts and other authorities. See *Painton & Co.* v. *Bourns Inc., supra,* 442 F. 2d at 225; and Comment b of Section 759 of the *Restatement of Torts* (1939), which states that "A trade secret may be a device or process which is patentable; but it need not be that."

The adoption of the 1952 Patent Act, without any indication that Congress intended to abrogate the long-standing rulings of this Court, and other authorities, as well as the long-standing and well-known use and reliance upon trade secrets in industry, makes it clear that no such abrogation was intended. *Townsend* v. *Yeomans,* 301 U.S. 441 (1937); and see *Graham* v. *John Deere Co.,* 383 U.S. 1, 17 (1966), where this Court held that the 1952 Patent Act intended to codify judicial precedents in another area, namely those dealing with the level of innovation required to secure a patent.

Moreover, Congress has made clear its intention to uphold trade secrets by its recognition of trade secret rights in at least the following statutes, some of which appear to be directed specifically to trade secrets in "patentable" subject matter[7]:

5 U.S.C.
§ 552(b)(4) excluding trade secrets from the information federal agencies must make public

15 U.S.C.
§ 46(f) excluding trade secrets from the information the FTC may make public

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[7] See, also, Rule 26(c) of the Federal Rules of Civil Procedure, adopted in 1937; Rule 508 of this Court's proposed Rules of Evidence; Revenue Procedure 69-19 of the Internal Revenue Service.

§ 78x(a) excluding from the powers of the SEC the right to require that trade secrets or processes be revealed

§ 1193(c) requiring trade secrets received by the Secretary of Commerce, in relation to fabric flammability standards or regulations, to be considered confidential

§ 1263(h)[8] prohibiting use or disclosure of any information concerning any method or process which is a trade secret, which has been acquired in connection with HEW inspection and investigation of hazardous substances

§ 1401(e) requiring trade secrets received by the Transportation Department, in the inspection and investigation of federal vehicle safety standards, to be considered confidential

18 U.S.C.

§ 1905 making it a crime for any United States officer or employee to disclose trade secrets which come to him in the course of his duties

21 U.S.C.

§ 331(j)[8] prohibiting use or disclosure of any information concerning any method or process which is a trade secret, which has been acquired in the administration of the Food, Drug & Cosmetic Act

§ 458(a)(5) prohibiting use or disclosure of trade secrets acquired in the administration of the Poultry Products Inspection Act

33 U.S.C.

§ 1160(f)(2)[8] excluding trade secrets and secret processes from reports which can be required at public hearings under the Federal Water Pollution Control Act

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[8] The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

42 U.S.C.

§ 2631i(e) prohibiting disclosure by HEW of trade secrets obtained in enforcing the Radiation Control for Health and Safety Act

§ 1857d(j)(1)[8] providing that no witness shall be required to divulge trade secrets or secret processes in any conference under the Clean Air Act

§ 1857f-6(c) requiring trade secrets, received by HEW in connection with the registration of vehicle fuel additives, to be considered confidential (apparently not continued in the 1970 Amendment)

Thus, no intent to preempt the field can be ascribed to Congress, and, in short, there is no area in which trade secrets, whether on patentable subject matter or not, can be found to be in conflict with or an obstacle to the objectives or operation of the Patent Laws.

D. The Court of Appeals erred in its application of the rulings of earlier cases to the circumstances of the present case.

At the outset of its discussion of the law, the Court below stated that while the issue of federal preemption of field of protection for inventions has never been clearly presented to this Court, "the language of certain early cases suggests that the Supreme Court was of the opinion that the Patent Laws provided the exclusive means and remedies for the protection of inventors, and that no other monopoly was available". 478 F.2d at 1801. The court then quoted extensively from the cases of *Grant* v. *Raymond, supra,* and *Kendall* v. *Windsor,* 62 U.S. (21 How) 322 (1858). 478 F.2d at 1081-2.

The passage quoted by the Court of Appeals from Mr. Chief Justice Marshall's opinion in *Grant* v. *Raymond* merely states that the great object and intention of the

[8] The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

Patent Laws, referring to the Patent Act then in effect, is to assure to the public the benefits of discoveries, and further, that the means this Act employs to achieve this objective is to grant to inventors exclusive rights in their discoveries for a limited time. It is difficult to see what the Court below found in this passage to suggest that the Patent Laws provide "the exclusive means" to protect inventors, unless there was some confusion over Mr. Chief Justice Marshall's language which spoke of the "means" employed by the Act being the grant of "exclusive" rights.

In any event, the Court below stated "That this concept of the patent laws continued to be the view of the Supreme Court is emphasized in *Kendall* v. *Windsor*"—thus underscoring the emphasis the Court was apparently placing upon what appears to be a misinterpretation of the passage quoted from *Grant* v. *Raymond*. Moreover, the passage quoted from the *Kendall* case is perhaps even more misleading, at least when separated from the context of that case. This passage states in part that:

> . . . the inventor who designedly, and with the view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public, *comes not within the policy or objects of the Constitution* or acts of Congress. He does not promote, and, *if aided in his design*, would impede, the progress of science and the useful arts. (Emphasis is that of the Court of Appeals in this case.) 478 F.2d at 1082.

To understand the nature of the conduct being assailed in the foregoing passage, it should be understood that the *Kendall* case was a patent infringement suit, not a trade secret suit. Further, the Court was discussing the conduct of one who maintains his invention in secret indefinitely, until someone else learns of it or independently invents it, and he then applies for and obtains a patent to secure a 14 year (now a 17 year) exclusive grant. This obviously frustrates the Congressional plan of allowing inventors the choice of *either* a trade secret for an indefinite time

or an exclusive grant for a definite term, but not both. See *Metallizing Engineering, supra,* 153 F.2d at 520; also see the discussion of *Pennock & Sellers* v. *Dialogue, supra,* in the *Kendall* opinion, 62 U.S. (21 How) at 330.

Thus, the reliance of the Court below on the early cases of this Court as suggesting that the Patent Laws provide "the exclusive means and remedies" for the protection of inventions, and its application of this rule to the present case to find a federal preemption of "patentable" trade secrets, appear to be clearly in error.

The Court below also quoted from this Court's opinion in *Scott Paper Co.* v. *Marcalus Manufacturing Co., supra,* emphasizing the requirement of the Patent Laws that there be a full disclosure and dedication to the public on the expiration of the patent, in return for the grant of a patent, as already discussed. And it discussed some of the other decisions of this Court, which have found conflicts to exist between certain State laws and the Patent Laws. These include *Singer Mfg. Co.* v. *June Mfg. Co., supra; Kellog Co.* v. *National Biscuit Co., supra; Scott Paper Co.* v. *Marcalus Mfg. Co., supra; Sears, Roebuck Co.* v. *Stiffel Co.,* 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting,* 376 U.S. 234 (1964); and *Lear Inc.* v. *Adkins, supra.*

These cases fall broadly into two categories. The first concerns situations where patents have already been granted, and thereafter there is reliance upon a state law to frustrate one of the conditions upon which the grant was predicated. This includes *Singer Mfg. Co.* v. *June Mfg. Co., supra,* where patented machines had come to be known as "Singers" while the patents existed, during which time the machines could be sold only by the patent owner, and, consequently, this Court found that a perpetuation of the exclusive rights in this name would impede the sale of the machines by others, and be tantamount to a continuation

of the patent monopoly beyond the expiration of the patents. Also, it includes *Kellog Co.* v. *National Biscuit Co., supra,* where the same was true as to the name "shredded wheat" and the pillow-shape design of the shredded wheat biscuit, and *Scott Paper Co.* v. *Marcalus Mfg. Co., supra,* where a long-standing State law of estoppel against an assignor attacking the validity of a patent he had assigned was vitiated, at least where the assignor could establish that the patent claims covered an invention disclosed in an expired patent.

Lastly, it includes *Lear Inc.* v. *Adkins, supra,* where the Court rejected a reliance upon the state law of licensee estoppel, which had theretofore been invoked many times to preclude licensees from challenging the validity of a patent under which they were licensed, thus impeding a federal court's determination as to whether the patentee had complied with the condition of patentability in securing his patent. See *Graham* v. *John Deere Co., supra.*

The second category of preemption cases includes *Sears* and *Compco* (and *Goldstein* on the copyright side, which is not relevant to our discussion here). These cases involve direct action on the part of a State to grant substantially the equivalent of patent protection without requiring that the essential conditions of patentability of the Patent Laws have been met.

While in *Sears* and *Compco* patents had been granted, their principal relevance is that they were held invalid for want of invention, and in one instance actually refused by the Patent Office, so that they demonstrate that the devices in suit (pole lamps and light reflectors) did not meet the standards of patentability established by the Patent Laws. These cases concerned a State unfair competition law which was held to preclude copying of the devices in suit. In striking down this law as being in conflict with the Patent Laws, this court stated that the effect of the law was to grant "perpetual protection to articles too lacking

in novelty to merit any patent at all under federal constitutional standards." *Sears, supra,* 376 U.S. at 232. Further, it stated:

> . . . because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying . . . The judgment below did both and in so doing gave Stiffel the equivalent of a patent monoply on its unpatented lamp. *Sears,* 376 U.S. at 232-3

This Court in its *Goldstein* decision, commented on *Sears* and *Compco* as follows:

> . . . In those [Sears and Compco] cases, the question was whether a State could, under principles of a state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent. 412 U.S. at 569.

Thus, the preemption decisions of this Court, whether of the first or second categories discussed, have concerned only the patent grant itself being wrongfully continued, as in *Scott* and *Lear,* or State laws which grant protection "identical with . . . [that] which sprang from the existence of the [patent] monoply", as in *Singer* and *Kellog,* or State laws which grant "the equivalent of a patent monopoly", as in *Sears* and *Compco.* See *Singer, supra,* 163 U.S. at 183; *Sears, supra* 376 U.S. at 233. For the reasons already discussed, trade secret protection is not identical in effect to, or the equivalent of, a patent monoply—and, consequently, the patent preemption decisions of this Court are not applicable to trade secrets.

Lastly, the Court below erred in relying upon the one year public use bar applicable to the filing of patent applications, as constituting a forfeiture of all rights to secure patent protection, so as to preclude the enforcement of trade secret protection, since, as already discussed, the

one year public use bar has no meaning when applied to trade secrets.

In summary, the Court below erred in finding a suggestion in the early cases of this Court that patent laws provide "the exclusive means" of protection for inventions, in applying the rule of the foregoing Patent Law preemption cases of this Court to trade secrets, and in its reliance upon the one-year commercial use of the trade secrets in suit as constituting a relevant forfeiture.

CONCLUSION

For all of these reasons, the holding of the Court of Appeals that the trade secret laws of Ohio are preempted by the Patent Law should be reversed.

Respectfully submitted,

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October 30, 1973

Edward P. Troxell, Esq.
Jones, Day, Cockley & Reavis
1750 Union Commerce Building
Cleveland, Ohio 44115

Re: Kewanee Oil Co. v. Bicron Corp. et al.

Dear Mr. Troxell:

Confirming our telephone conversation of last week, on behalf of the New York Patent Law Association, I am requesting the consent of Kewanee Oil Company to our filing of an amicus curiae brief on the merits in the United States Supreme Court in the above-entitled case.

I understand from our telephone conversation that you are willing to give your consent on behalf of Kewanee. If so, please indicate this consent on the enclosed two copies of this letter, and return them to me for filing in the Supreme Court.

Yours truly,

Steven R. Biren

Steven R. Biren, Secretary
Special Committee on Amicus Brief
New York Patent Law Association

SRB:sa
Enclosure

CONSENT

Kewanee Oil Company, Plaintiff-Appellant, hereby consents to the filing of an amicus brief on the merits, in the above-captioned case in the Supreme Court of the United States, by the New York Patent Law Association.

Edward P. Troxell

Counsel for Kewanee Oil Company

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October 30, 1973

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New York Patent Law Association

SRB:sa
ENCLOSURE

CONSENT

Bicron Corporation, Defendant-Respondent, hereby consents to the filing of an amicus brief on the merits, in the above-captioned case in the Supreme Court of the United States, by the New York Patent Law Association.

Counsel for Bicron Corporation

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Supreme Court, U. S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,
v.
BICRON CORPORATION, ET AL.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

---

BRIEF FOR AMICUS CURIAE R. J. REYNOLDS INDUSTRIES, INC.

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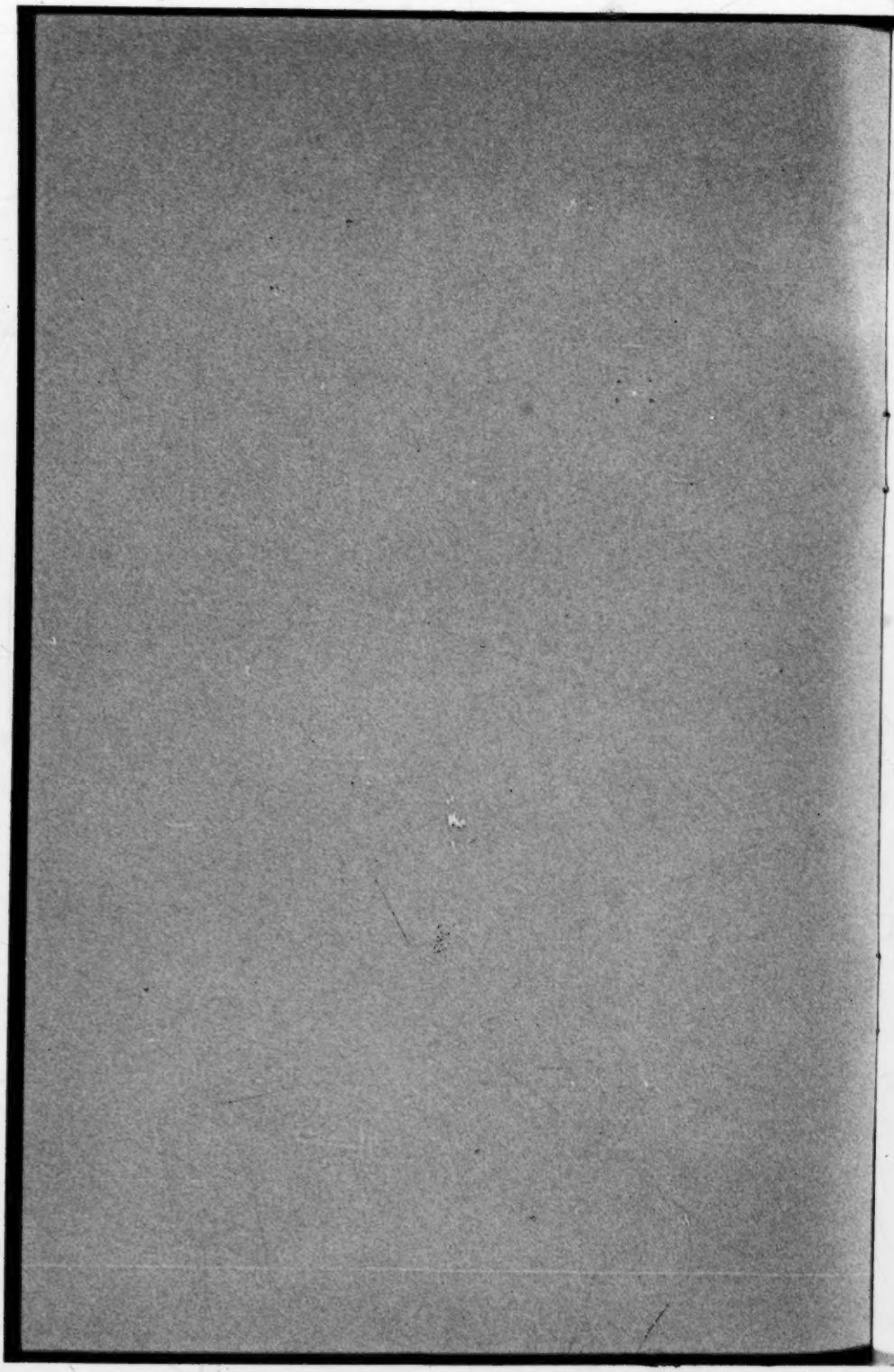

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, ET AL.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

---

BRIEF FOR AMICUS CURIAE R. J. REYNOLDS INDUSTRIES, INC.

Amicus Curiae, R. J. Reynolds Industries, Inc., prays that the decision of the Court of Appeals for the Sixth Circuit in *Kewanee Oil Company* v. *Bicron Corporation, et al.*, dated May 10, 1973, be reversed.

OPINION BELOW

The opinion of the Court of Appeals is reported at 478 F. 2d 1074.

JURISDICTION

The judgment of the Court of Appeals for the Sixth Circuit was entered on May 10, 1973. A petition for a

writ of certiorari was filed July 27, 1973, and was granted October 9, 1973. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

CONSENT TO FILE

The petitioner and the respondents have consented in writing to the filing of a brief for amicus curiae, R. J. Reynolds, Industries, Inc. (Appx. A and B)

INTEREST

R. J. Reynolds Industries, Inc. is a Delaware corporation located in Winston-Salem, North Carolina, with subsidiaries located and doing business under the laws of the State of North Carolina and elsewhere throughout the United States. R. J. Reynolds Industries, Inc. and its subsidiary corporations are engaged in the manufacture, research, development and the licensing of technology pertaining to the aluminum, food, tobacco and transportation industries in which trade secrets are a major factor in encouraging competition while, so long as secret, assisting in the preservation of the company's competitive position.

R. J. Reynolds Industries, Inc. and its subsidiaries have entered into and have recognized trade secret agreements in compliance with the laws of North Carolina and other states, but, if upheld as the law of the land, the decision of the Court of Appeals of the Sixth Circuit in *Kewanee Oil Company* v. *Bicron Corporation, et al.* would overrule a long established body of the law, would vitiate the trade secret laws of over twenty states, including North Carolina, and would extend the scope of Article I. Section 8 of the Constitution beyond the realm intended by the framers of the Constitution, the Congresses of the United States and this Honorable Court. Such an extension would irreparably damage R. J. Rey-

nolds Industries, Inc. and its stockholders and employees, the businesses and people of North Carolina and the public at large throughout the United States.

QUESTION PRESENTED

Does Article I. Section 8 (clause 8) of the Constitution and the Patent Laws adopted pursuant thereto preempt State Trade Secret Laws and thereby destroy a citizen's privilege to enjoy, express or lawfully imposed, confidential contractual relationships with others?

STATUTES INVOLVED

Article I. Section 8 (clause 8) of the Constitution:

> "The Congress shall have Power—
>
> * * * *
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective writings and Discoveries;—"

Title 35, United States Code, Section 101—Inventions Patentable

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." July 19, 1952, C. 950, § 1, 66 Stat. 797.

STATEMENT

On May 10, 1973, the Court of Appeals for the Sixth Circuit, in reversing the lower Court (Unrep.), held that the field of protection afforded by the Trade Secret Laws of the State of Ohio (which are substantially the same as those of twenty-one other states, including North

Carolina, had been preempted by the Patent Laws of the United States. While acknowledging that other Courts of Appeals have refused to declare a conflict between the United States Patent Laws, on the one hand, and the Trade Secrets Laws of certain states (California, Georgia, New York and Virginia), on the other hand, the Court of Appeals for the Sixth Circuit ruled that a state trade secret law which protects an invention which would be appropriate subject matter for a patent under the Patent Laws, conflicts with the policies and purposes of Article I, Section 8 (clause 8) of the Constitution and the Patent Laws adopted pursuant thereto.

SUMMARY OF ARGUMENT

Article I, Section 8 (clause 8) of the Constitution and the Patent Laws adopted pursuant thereto, were not intended, and are not, now, to be interpreted to preempt trade secrets whether directed to patentable or other subject matter. The dictates of this Court and other Courts of Appeals, the legislation of Congress and the states and the writings of acknowledged authorities confirm this conclusion. Moreover, any other conclusion could only lead to an unintended usurpation of States' rights, a degradation of business morality and economic chaos to the detriment of fair and open competition and the public interest.

ARGUMENT

It is submitted, with respect, that the decision of the Court of Appeals for the Sixth Circuit in *Kewanee Oil Company* v. *Bicron Corporation et al.* is erroneous and should be reversed.

The decision is in conflict with all known law. It is in conflict with the intent of the Constitution, with the intent of Congress, its laws and treaties, and is in direct conflict with the decisions of this Court and with

the decisions of Courts of Appeals of other circuits. Equally alarming, the decision, in effect, overrules a time-honored body of the common law and at least twenty-one state statutes based thereon.

TRADE SECRETS DEFINED

By definition, trade secrets are:

(1) "Information respecting the business or process of production of a dealer or producer of special value to him in reference to competitors. 52 Am J 1st Tradem § 118

(2) "Secrets of any character peculiar and important to the business of the employer which have been communicated to an employee of the employer in the course of a confidential employment. 35 Am J 1st M & S § 96

(3) "Information relative to an industrial process or the conduct of a business, known only to the owner and those of his employees to whom it is necessary to confide if the fact known is to be made of value or, at any rate not available to the trade generally. 28 Am J Rev. ed Inj § 72." [1]

Restated,

> "A trade secret may consist of any formula, pattern, device, plan or compilation of information which is, or is designed to be used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, or a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.—
>
> * * * *

[1] Ballentines' Law Dictionary, 1969, The Lawyer's Cooperative Publishing Company.

> "The subject matter of a trade secret must be secret—and is known only in the particular business in which it is used.—"[2]

The foregoing definitions were not evolved *in vacuo*. They are the result of the law, statutory and judicial, which without authority or background, the Sixth Circuit Court of Appeals has sought to modify or obliterate.

THE CONSTITUTION AND THE PATENT LAWS ADOPTED PURSUANT THERETO WERE NOT INTENDED TO PREEMPT TRADE SECRET LAWS

A detailing of the intent of the framers of the Constitution appears superfluous in view of this Honorable Court's recent review of Article I, Section 8 (clause 8) in *Goldstein* v. *California*, June 19, 1973, —— U.S. ——, 93. S. Ct. 2303, —— L.Ed. ——. It is sufficient to say that the Court noted "—the objective of the Copyright (Patent) Clauses was clearly to facilitate the granting of rights national in scope—" 93 S. Ct. 2309, but that, "—under the Constitution, the States have not relinquished all power to grant to authors (and inventors) the exclusive Right to their respective Writings (and Discoveries) 93 S. Ct. at 2311, [parenthetical inserts of Amicus]. Moreover, "While the area in which Congress *may* act is broad, the enabling provision of Clause 8 does not require that Congress act in regard to all categories of materials which meet the constitutional definitions." 93 S. Ct. at 2312.

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[2] Restatement of the Law, Second, TORTS, Section 757, Comment b, Council Draft No. 13 (Trade Practices) February 4, 1963, (Understood to be planned for public release, unchanged, in early 1974), cf. 1939 ed.

CONGRESS HAS NOT ACTED TO PREEMPT TRADE SECRETS UNDER THE PATENT LAWS; IT HAS ACTED HOWEVER TO PRESERVE TRADE SECRETS

Any Congressional intent to preempt trade secrets is totally absent from the Patent Act, and any inclusion of trade secrets in the Patent Laws would be repugnant to other Congressional Acts and the Common Law. Congress has gone out of its way to preserve trade secrets by excluding them from numerous statutory enactments which specifically bar the government and others from using or disclosing trade secrets, including those unquestionably in the public interest, such as those pertaining to fabric flammability, hazardous substances, etc.[3] Similarly, the Congress, more particularly the United States Senate, has ratified many treaties which recognize the trade secrets of foreign nationals in one form or another.[4] Without more, and there is more, it must shock this Court's conscience to observe that the effect of the decision of the Court of Appeals of the Sixth Circuit is, not only to permit, but to grant foreign nationals trade secret rights superior to those of their counterparts in the United States.

THE DECISION OF THE COURT OF APPEALS FOR THE SIXTH CIRCUIT CONFLICTS WITH DECISIONS OF THIS COURT AND COURTS OF APPEALS OF OTHER CIRCUITS

Forty years ago, this Court recognized that an inventor could:

> "—keep his invention secret and reap its fruits indefinitely.—" [5]

---

[3] See "Trade Secrets" by Roger M. Milgrem, Pub. 1973, Mathew Bender, p. 7-70.17 (Appx. C).

[4] E.g. Paris Convention Act of Lisbon, 1958, Art. 10 Bis (2); American Convention, 1929, Art. 20, 46 Stat. 2907.

[5] United States v. Dubilier Condensor Corp., 1933, 289 U.S. 178, 186, 53 S. Ct. 554, 557.

More significantly, the Court recognized that

> "—a patent is not, accurately speaking, a monopoly, for it is not created by the executive authority at the expense and to the prejudice of all the community except the grantee of the patent.—An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of knowledge. (Citations)"

Justice Roberts' words, previously quoted, are even more compelling today in the maze of competition where an inventor of an unpatentable invention only has the law of trade secrets to protect him, and then only if his contribution remains secret. Contrary to the decision of the Court of Appeals for the Sixth Circuit, a trade secret law does not maintain a monopoly.

That is, the first developer of a secret process is not permitted, under the Trade Secret Laws, to exclude others from actively attempting to duplicate the secret process, and when duplicated, to bar competition in the market place. In contrast, the monopoly privilege granted under the patent laws precludes a second developer of the secret process from capitalizing on his discovery for a fixed term, notwithstanding the fact that his discovery was independently conceived and developed. However, the owner of a trade secret is only able to preclude those persons whom he has taken into his confidence or those individuals who have tortiously or criminally appropriated the secret.

The rationale of the *Dubilier* case quoted above finds precedent from this Court in an earlier decision by Justice Holmes[6] wherein trade secrets were upheld because of an abuse of trust, the usual incident of confidential relations. Twelve years later the Court upheld State

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[6] E. I. DuPont de Nemours Powder Company v. Walter Masland et al., 1917, 244 U.S. 100, 102, 35 S. Ct. 575, 576.

trade secret causes of action for "the breach of contract or wrongful disregard of confidential relations, both matters independent of the patent laws".[7]

For the reasons heretofore expressed in, and based upon the decisions of this Court, the Courts of Appeals for the Second,[8] Fourth,[9] Fifth[10] and Ninth[11] Circuits have upheld the law of trade secrets. Similarly, twenty-one States have prohibited the improper or unfair appropriation of trade secrets by breach of contract or wrongful disregard of confidential relations (Appx. D).

Equally pertinent to any consideration of the recognition of trade secrets are this Court's proposed Federal Rules of Evidence, specifically, Rule 508 which provides, in part:

> "A person has a privilege, which may be claimed by him or his agent or employee, to refuse to disclose and to prevent other persons from disclosing a trade secret owned by him, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice.—."

This proposed rule complements the existing Rule 26(c) of the Federal Rules of Civil Procedure, which provides for the issuance of protective orders

> "(7) that a trade secret or other confidential research, development, or commercial information not

---

[7] Becher v. Contoure Labs., Inc., 1929, 279 U.S. 388, 391, 49 S. Ct. 356, 357.

[8] Painton & Company, Ltd. v. Bourns, Inc., 1971, 2nd Cir., 442 F. 2d 216.

[9] Servo Corporation of America v. General Electric Company, 1964, 4th Cir., 337 F. 2d 716, Cert. Den. 383 U.S. 934.

[10] Water Services, Inc., et al. v. Tesco Chemicals, Inc., et al., 1969, 5th Cir., 410 F. 2d 163.

[11] Dekar Industries, Inc. v. The Bissett Berman Corporation, 1970, 9th Cir., 434 F. 2d 1304, Cert. Den. 402 U.S. 945.

be disclosed or be disclosed only in a designated way;—"

KEWANEE v. *BICRON* DECISION UNDERMINES BUSINESS MORALITY AND PRACTICES

It is axiomatic that the law is but the rules that men live by, but men have not and cannot live by the rule of *Kewanee* v. *Bicron*. The practical application and the effect of the decision is repugnant to the mores of the business community. It can only result in "know-how" or technology communes, not the desired and sought after higher standards of business morality.

If trade secret laws could be considered preempted by the patent laws, the centuries old laws relating to inducements to breach a contract and unjust enrichment would have to be materially modified, if not discarded. Industrial espionage and personnel disloyalty would be encouraged and run rampant.

The framers of the Constitution, many Congresses and this Court never intended the taking of trade secrets by unlawful means or by an inducement to breach a contract, but this could be the appalling result of an affirmance of the decision in *Kewanee* v. *Bicron*.

For example, an unethical businessman would be free to induce a competitor's production or research manager to breach his contract of employment for the purpose of acquiring trade secrets and to save development costs. The original employer's entire work product would be lost. The danger of this occuring is particularly evidenced by today's climate of employment mobility which shall be further enhanced by the passage of a bill (presently pending before Congress) vesting pension rights in employees.

Furthermore, secret formulas covering diverse products such as soft drinks and tobacco blends, which subsi-

diaries of R. J. Reynolds Industries, Inc. have and which have been kept secret and secure for generations, may be compromised.

Trade secret piracy practices are ethically and morally indefensible, and are unsupportable even under the misapplied doctrine favoring the full and free use of ideas in the public domain. The fallacy lies in the fact that trade secrets have never been, are not now and never should be in the public domain.

The public interest, which the Court of Appeals for the Sixth Circuit sought to serve, is the real loser under, and the most adversely affected by, the decision in *Kewanee* v. *Bicron*. If sustained, existing contracts between producers will be so frustrated that agreements for the exchange of know-how and technology leading to a more available, a better or a less expensive product will be a thing of the past. Production may be limited, employment may be restricted, competition lessened and the public deprived of the benefit of valuable and, heretofore, protected trade secrets. The deplorable effect on the economy, domestically and internationally, could be disastrous.

CONCLUSION

Practically, equitably, legally and morally, the doctrine enunciated in *Kewanee Oil Company* v. *Bicron Corporation, et al.* has no place in the law of the United States. The decision of the Court of Appeals for the Sixth Circuit should be reversed.

Respectfully submitted,

IRVING M. TULLAR
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P. O. Box 2266, Eads Station
Arlington, Virginia 22202
Tel. (703) 521-5200

Attorney for Amicus Curiae
R. J. Reynolds Industries, Inc.

November —, 1973

Of Counsel:

GROVER M. MYERS
R. J. REYNOLDS INDUSTRIES, INC.
Reynolds Building
Winston Salem, North Carolina
Tel. (919) 748-7622

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Brief for Amicus Curiae, R. J. Reynolds Industries, Inc. were served by mail, postage prepaid this 23 day of November, 1973, on Mr. Barry L. Springel, c/o Jones, Day, Cockley & Reavis, 1750 Union Commerce Building, Cleveland, Ohio, 44115, counsel for Petitioner and Mr. William C. McCoy, Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio, 44114, counsel for Respondent.

APPENDICES

APPENDIX A

GEORGE B. JONES
HARRIS C. LOCKWOOD
IRVING M. TULLAR
GEORGE M. COOPER

DONALD G. JACKSON
DOUGLAS R. HANSCOM

M. WALTER MAEUSSLER
(PENNSYLVANIA BAR ONLY)

JONES AND LOCKWOOD
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ARLINGTON, VIRGINIA 22202

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ALVIN W. SLAYDEN
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ANTHONY J. DELAURENTIS, P.E.
CONSULTANT

MAILING ADDRESS
P. O. BOX 2266
EADS STATION
ARLINGTON, VIRGINIA 22202

November 5, 1973

Mr. William C, McCoy, Jr.
Bosworth, Sessions & McCoy
625 National City Bank Building
Cleveland, Ohio 44114

RECEIVED

Re: Kewanee Oil Company vs.
Bicron Corporation, et al.
Supreme Court, October
Term, 1973, No. 73-187

Dear Mr. McCoy:

Supplementing our telephone call of earlier today, we hereby request your consent, on behalf of the Respondents, Bicron Corporation, et al. to file a brief for amicus curiae, R. J. Reynolds Industries, Inc., a corporation of the State of Delaware, located and doing business in Winston Salem, North Carolina.

The brief for amicus curiae Reynolds will be in support of the position of Petitioner, Kewanee Oil Company, because the decision of the Sixth Circuit Court of Appeals is believed to be in conflict with the laws of North Carolina.

Very truly yours,

JONES AND LOCKWOOD

By: Harry C. Lockwood

IMT/rmm

CONSENT:

Bicron Corporation, by its counsel, hereby consents to the filing of a brief for amicus curiae, R. J. Reynolds Industries, Inc.

11/6/73 William C. McCoy, Jr.
Date

RECEIVED
JONES & LOCKWOOD
NOV 8 1973
NOTED

APPENDIX B

GEORGE R. JONES
HARRIS C. LOCKWOOD
IRVING W. FULLER
GEORGE W. COOPER

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November 5, 1973

Barry L. Springel, Esquire
Jones, Day, Cockley & Reavis
1750 Union Commerce Building
Cleveland, Ohio 44115

Re: Kewanee Oil Company vs.
Bicron Corporation, et al
Supreme Court, October
Term, 1973, No. 73-187

Dear Mr. Springel:

Supplementing our telephone call of earlier today, we hereby request your consent, on behalf of Petitioner, Kewanee Oil Company, to file a brief for amicus curiae, R. J. Reynolds Industries, Inc., a corporation of the State of Delaware, located and doing business in Winston Salem, North Carolina.

The brief for amicus curiae Reynolds will be in support of your position, as counsel for the Petitioner, Kewanee Oil Company. The decision of the Sixth Circuit Court of Appeals is believed to be conflict with the laws of North Carolina and the decision of the Fourth Circuit Court of Appeals and others.

Very truly yours,

JONES AND LOCKWOOD

By: Irving W. Fuller

IWF/rmm

CONSENT:

Kewanee Oil Company, by its counsel, hereby consents to the filing of a brief for amicus curiae, R. J. Reynolds Industries, Inc.

11/6/73 Barry L. Springel
Date Barry L. Springel

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JONES & LOCKWOOD
NOV 8 1973
NOTED

APPENDIX C

The Freedom of Information Act, 5 U.S.C. § 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x, preventing the SEC from requiring that trade secrets or processes be revealed; Section 6(f) of the FTC Act, 15 U.S.C. § 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. § 1193(c) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. § 1263(h) prohibiting any person from using or disclosing trade secrets required in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. § 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. § 331(i) prohibiting any person from using or disclosing information concerning methods or processes required under Food, Drug & Cosmetic Act which are trade secrets; 21 U.S.C. § 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. § 466g(f)(2) excluding trade secrets from being disclosed at public hearings under Federal Water Pollution Control Act; 42 U.S.C. § 263i(e) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. § 1857d(c)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. § 1857f-6c(c) requiring trade secrets obtained by HEW in connection with registration of vehicle fuel additives to be considered confidential; and § 35 U.S.C. 122 providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

APPENDIX D

STATE CRIMINAL STATUTES, RELATING TO TRADE SECRETS

Ark. Stat. Ann. 6641-3949 to 6641-3951 (1967)

Cal. Penal Code § 499c (1967)

Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967)

Ga. Crim. Code § 26-1809 (1968)

Ill. Rev. Ch. 38 § 15-1 to 15-9, § 16-1 (1965)

Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969)

Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967)

Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967)

Mich. Compl. Laws §§ 752.771 to 752.773 (1968)

Minn. Stat. Ann. § 609.52 (1967)

Neb. Rev. Stat. Ch. 28, §§ 548.01 to 548.03 (1965)

N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)

N.J. Stat. Ann. §§ 2A: 119-5.1 to 199-5.5 (1965)

N.M. Stat. Ann. § 40 A-16-23 (1967)

N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967)

N.C. Gen. Stat. § 14-75.1 (1967)

Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967)

Okla. Stat. Tit. 21, § 1732 (1968)

Pa. Stat. Tit. 18, § 4899.2 (1965)

Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)

Wis. Stat. Ann. § 943.205 (1965)

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IN THE

Supreme Court of the United States

OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY,
Plaintiff-Petitioner,

v.

BICRON CORPORATION ET AL,
Defendants-Respondents.

BRIEF AMICUS CURIAE
of
THE LICENSING EXECUTIVES SOCIETY

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IN THE

Supreme Court of the United States

OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY,

Plaintiff-Petitioner,

v.

BICRON CORPORATION, ET AL,

Defendants-Respondents.

BRIEF OF AMICUS CURIAE THE LICENSING EXECUTIVES SOCIETY[1]

I.

NATURE AND INTEREST OF THE AMICUS

The Licensing Executives Society, U.S.A., is a professional association of persons intimately involved in licensing of technology and industrial property rights, including trade secrets and know-how.

The Society in the United States is composed of over 900 members, some 60% odd being executives rather than prac-

[1] Letters from the parties consenting to this brief are on file with the Clerk of the Court.

ticing lawyers, some representing large corporations, some representing small companies, some 40% odd being either in-house or private practioners of law, whose work includes a major focus in technology development, practice and law.

The Society in filing this brief, acts through its Board of Trustees on advice of its Committee on Laws.

Inherent in the work of the Society's members is continuing contact with the financing and generation of new technology, with procedures to bring the technology developed to public enjoyment, and with the interrelation between the necessity for technology protection and the ability to obtain financing for its development.

The members of this amicus are persons who buy, sell and direct the protection of billions of dollars worth of technology[2] which is endangered by the decision below.

The decision below purports to destroy in very large measure the assets and licenses which the members of this amicus husband and handle on a continuing day to day basis.

These members, perhaps more so than any other group, are acquainted with the realities of trade secret and know-how law in action.

[2] See discussion in Appendix A hereto.

II.

STATUTES AND TREATIES INVOLVED

State statutes enacted since the 1964 preemption ruling in *Sears* and *Compco*[3] which are protective of trade secrets and are obliterated by the *Kewanee* rule below, include:

Ark. Stat. Ann. §§41-3949 to §§41-3951 (1967)
Cal. Penal Code § 499c (1967)
Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967)
Ga. Crim. Code § 26-1809 (1968)
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Mich. Compl. Laws §§ 752.771 to 752.773 (1968)
Minn. Stat. Ann. § 609.52 (1967)
Neb. Rev. Stat. Ch. 28, §§ 548.01 to 548.03 (1965)
N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)
N.J. Stat. Ann. §§ 2A: 119-5.1 to 119-5.5 (1965)
N.M. Stat. Ann. § 40 A-16-23 (1967)
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N.C. Gen. Stat. § 14-75.1 (1967)
Ohio Rev. Code. Ann. Tit. 13, § 1333.51, 1333.99 (1967)
Okla. Stat. Tit. 21, § 1732 (1968)
Pa. Stat. Tit. 18, § 4899.2 (1965)
Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

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[3] Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc. 376 U.S. 234 (1964).

Provisions of the Patent Act, Title 35 U. S. Code, which are involved, include:

§ 101 Inventions patentable.

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§ 102 Conditions for patentability; novelty and loss of right to patent.

A person shall be entitled to a patent unless —

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the

United States before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. • • •

§ 103 Conditions for patentability; non-obvious subject matter.

A patent may not be obtained th ough the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

• • •

Treaties to which the United States is a party, and which are directly involved, are:

Paris Convention, Act of Lisbon 1958, Art. 10 Bis (2) which recites:

> "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition?"[— which is prohibited].

The Pan American Convention of 1929, Art 20, reads to the effect:

> "Every act or deed contrary to commercial good faith or to the normal and honorable development of indus-

trial or business activities shall be considered as unfair competition and therefore unjust and prohibited."

The Constitution, Art. I, Sec 8, Clause 8 reads:

"The Congress shall have the power * * * To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

III.

THE QUESTION DISCUSSED BY THIS AMICUS, LICENSING EXECUTIVES SOCIETY

In *Lear Inc.* v. *Adkins*[4] a three-justice minority wrote that trade secret law had been totally preempted by the patent law — though the issue was not before the court and had not been briefed to the Court. The majority of the Court declined that invitation and invited the lower courts to a "fully focused inquiry" into how far they would go in enforcing contractual obligations of confidence or contracts for royalties.

The Sixth Circuit, in *Kewanee* below, made the invited inquiry and wrote to the effect:

> Policies of the patent law preempt protection of all technology which
>
> (a) has been in commercial use for more than one year, and
>
> (b) is subject matter "appropriate for patent."

Section 101 of the Patent Act, Title 35, defines the *classes* of subject matter appropriate for a patent as broadly as every "new and useful process, machine, manufacture or composition of matter." Within such classes appropriate

[4] 395 U.S. 653 (1969).

for a patent, Section 103 of Title 35 limits the allowance of patents to inventions which were not obvious to persons of ordinary skill in the art even in light of all the sum total of the prior art identified in Section 102. See statutes pp. 4-5 hereof.

Scholars have of course debated whether the *Kewanee* phrase "appropriate for patent" means nonobvious subject matter patentable under 35 U.S.C. § § 102-103 or means all technology within the classes recited in Section 101 as appropriate for patents.

Though the issues of confidential technology and contractual obligations of confidence as to technology were not before the Court nor briefed to the Court in *Goldstein* v. *California*, [5] the 1973 *Goldstein* opinion of this Court refers to the patent law's preemption of law protective of "mechanical configurations" without regard to nonobviousness under 35 U.S.C. § 103, and without regard for whether the configurations had been in use for one year. Thereby *Goldstein* suggests that *Kewanee*, if it be law at all, must be read to preempt as broadly as all applied technology referred to in 35 U.S.C. § 101 (p. 4 hereof) and irrespective of time in use.

Thus the three opinions, *Lear*, *Kewanee* and *Goldstein*, suggest a focus of attention and inquiry upon (a) the existence of any preemption, and (b) if there be preemption the significance of two different issues as to scope of preemption:

(1) the significance of the difference between preemption based on all patentable classes of technology under 35 U.S.C. § 101 irrespective of patentability under Sections 102 and 103, by contrast with pre-

[5] ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

emption based only on inventions patentable under Sections 102 and 103; and

(2) the significance of the difference between preemption of all such technology of whichever of those definitions, (i) irrespective of time of use, by contrast with (ii) only that technology which has been in use for more than one year.

A. Section 101 v. *Section 102-103 preemption*

It typically costs thousands of dollars and 20 months of time in the Patent Office, and it commonly costs hundreds of thousands of dollars and years of time in the courts, to obtain a determination of whether a given item of Section 101 subject matter is patentable under Sections 102-103.

For single items of invention enjoying a large public market and thus worth millions of dollars, those costs are undesirable but usually tolerable. For multitudinous items of know-how whose value is in their packaged number but wherein each individual item is of much less value, such costs in time and money are **absolutely** intolerable.

The system of research and development economics simply cannot support or afford any approach at know-how protection, by which the proprietor does not know which way or whether his protection lies until after years of time for judicial machinations and thousands of dollars. Technology grows stale and loses significant portions of its value often in months, essentially always within a very few years. Contracts of know-how license must be let, monies paid, monies spent on R & D, and technology *used* for social service, without awaiting such delayed and costly determinations.

Sociologically and economically we must have a system which is essentially self-determinative for the great masses

of the milk of technological advance (contrast the cream covered by patents).

As hereinafter developed it is beyond doubt that when drawing the § 101 lines and the § 102-103 lines, the Congress and the individual authors of the Patent Act did not give one iota of thought to whether those statutory lines would be used for trade secret preemption definition by contrast with right-to-patent definition.

As also developed hereinafter preemption of subject matter potentially patentable under §§ 102-103 is devastating to existing know-how law and practice, and the broader preemption of all § 101 classes of technology is only an order of magnitude more devastating.

For these sociological and economic reasons, coupled with the failure of this Court to find a distinction between preemption of § 102-103 scope and preemption of § 101 scope in any of its opinions in *Sears, Compco, Lear* or *Goldstein,* the further portions of this brief will ignore that distinction as immaterial — trusting that if such nice lines of distinction are to be drawn they will be drawn after the kind of investigation and study for which the legislature is better equipped than the judiciary.

Both scopes of preemption are considered to be at least essentially, for all the purposes of this brief, of equally debilitating socio-economic effect, though admittedly the broader preemption is significantly worse than the more narrow one.

B. One-year-lag preemption

The patent statute's 35 U.S.C. § 102 provides that a patent cannot be obtained on inventions in public use for more than one year, without reciting or intimating anywhere or otherwise advising business men that any other

right is lost after that same year. The authors of the statutory phrase did not have such hidden intent (See below, p. 64).

Moreover, the billions of dollars worth of know-how which is now protected in this country and abroad by contract and tort obligations of trust and confidence, have their biggest value during the few years next following the first year of commercial use. For technology in its first year of use is typically being evolved, tested, debugged, and commercially used relatively little. The blossom of the market peak and full commercial value typically occurs in the few years immediately subsequent to the first year of use.

Thus, speaking in economic orders of magnitude, the rule of preemption of technology in public use for one year is, for most practical purposes, as devastating as the rule of preemption of all unpatented technology.

For socio-economic planning purposes they are one and the same, in spite of the one being larger than the other in strictly arithmetic terms.

Further, *if* there is to be a line drawn by a period of time, one year or two or three or five years, this should be drawn by the legislative process wherein the economic effect of the placement of that line can be determined by economic studies of all types of industries — a study not made by Congress when writing the Patent Act § 102 (b)'s one year cut-off of the right to patent.

Finally, this court's long line of preemption cases (See p. 66-77 below) never mention that the one-year grace period for the filing of a patent also destroyed other important property rights, and the authors of the patent statute deny that intent. (See below, p. 64)

For these sociological, economic and legal reasons, the further portions of this brief will commonly ignore that one-year's-use distinction as immaterial to the issues at hand. For with or without that nice distinction, the socio-economic result is essentially the same — and in all events is a determination for the legislative rather than the judicial function.

C. The Kewanee "New Section" of the Patent Act, Title 35

Employee contracts for the employee-agent to keep the confidence in trust, as it were, are invalidated by the *Kewanee* rule below. That change cuts across many concepts of law, ranging from the law of agency and trusts through the law of restitution, tort and contract.

The *Kewanee* court purported to write a brand new section into Title 35, U.S.C. generally to the effect:

> "Breach of trust and confidence law, agency law, contract and tort law are repealed insofar as they relate to confidential technological information appropriate for patent, one year after commercial use."

The remainder of this brief focuses significantly upon what might be described as the *Goldstein* modification of that, a new section in Title 35 to the net effect:

> "Breach of trust and confidence law, agency law, contract and tort law, are repealed insofar as they relate to confidential technological information."

It is the position of this Amicus that: As a matter of legal construction of law either of those expressions is as unsound as the other; and as a matter of society's socio-economic need they are essentially the same in practical result.

The Restatements of Trusts, Contracts, Agency, Restitution, and Torts all recite law in their areas contrary to *Kewanee.*

IV.

SUMMARY OF THE ARGUMENT

As applied to technology, such a new rule of law as quoted just above, reversing a rule as uniformly accepted as any rule known to the common law, and reversing a rule upon which industry transacts billions of dollars in business annually, is startling.

Its socio-economic impact and legal background command full chapters on each of the following topics, here summarized:

A. The economic significance of the *Kewanee* rule, even with the one year limitation, is in the billions of dollars order of magnitude. It affects a wide variety of contract types entered into daily by the thousands by American business. It sacrifices a billion dollars annually in the nation's balance of international trade. It cuts U.S. industry off from ready access to foreign technology.

B. The *Kewanee* rule, even when limited to prempt only patentable subject matter in use for one year, nevertheless presents a strong bias for all companies who can, to move their research and development operations from the United States to foreign countries where their R & D employees can be trusted to keep the confidence.

C. Obligations of trust and confidence do not give rise to the "monopoly power" commonly attributed to them by Mr. Justice Black and by the *Kewanee* court below.

The trade secret law is limited to prevention of fraudulent-type *derivation* and use of knowledge developed and paid for by others; all the nation's 210 million people and thousands of industries and universities remain free to

develop and use the same knowledge and compete outside any obligation of confidence.

Kewanee Oil's apparent preference for secrecy notwithstanding, it is the experience of this Amicus that whenever competitors find a significant value to exist in know-how, they can be depended upon to develop the same, equivalent or often better know-how on their own quite promptly after the decision that there is enough public need to be served to suggest enough profit to be earned to justify the effort.

In economic reality the restraints of the breach of confidence law, being focused upon the *relationship* rather than the *res,* sponsor vigorous ethical competition rather than restrain it.

D. The *Kewanee* court built its opinion on erroneous premises of fact for which it had no evidence before it, when it said that trade secret protection "would impede the progress of science and the useful arts."

To the contrary, the heretofore uniformly accepted law concerning confidential know-how (including both true secrets and know-how which is largely nonsecret), by which know-how is protected only as between pairs of people with obligations of confidence and trust one to the other, performs an absolutely vital and nationally necessary function in sponsoring the progress of the useful arts — a progress that is needed more now than ever before, needed in this time of expanding society and depleting natural resources and technology balance with the rest of the world.

E. In the list of priorities of public policy, the most important public policy of all is public policy favoring honesty and good faith in personal relationships, including specifically business dealings.

Free and open competition should not be worshipped as the sole true god at whose alter all other social purposs and policy of honesty must be sacrificed; free and open competition by one in breach of trust using technology expensively developed at high risk assumed by another, is contrary to public policy.

F. Treaties to which this nation is a party, establish a federal law of good faith business practice recognized as such by this and other courts.

G. The Sixth Circuit 1973 Trilogy, enforces criminal law public policy against wrongful appropriation of trade secrets (the *Greenwald* case), enforces public policy against wrongful copying of uncopyrighted catalog materials in a contempt context (the *Screw Machine* case), both after *Kewanee* and without a concern for patent or copyright law preemption. Even the Sixth Circuit has already twice recanted its preemption error in *Kewanee*, having recognized that preemption cannot be reconciled with other necessary public policies.

H. Any correct reading of the legislative history of the patent act, is a one hundred per cent contradiction of the preemption theory.

Our nation's constitutional-law history virtually began in *Gibbons* v. *Ogden*,[6] i.e., with a state of New York patent on the steamboat being litigated to the U. S. Supreme Court. Mr. Justice Marshall among others, heard 40 pages of argument on the federal patent law preemption issue, as well as argument that though valid against intrastate commerce the state patent could not be enforced as against interstate commerce. That state patent survived the patent law preemption argument in this Court, to be later litigated again against intrastate commerce.

[6] 22 U.S. 1 (1824).

The Constitution creates no hiatus between what the Congress is empowered to patent, and what is reserved to the states. This court having held the constitutional standard of patentability is high and difficult to obtain, and all other power being reserved to the states, the patent act cannot have preempted protection of constitutionally unpatentable subject matter.

At the time the present patent statute was written, no rule of common law stood more firmly established, more uniformly accepted both in state and federal common, statutory and treaty law; and the authors of the new act affirmatively sought to make **no** controversial changes.

Said one of the present Patent Act's two primary authors:

> "Patent laws function only to keep things out of the public domain temporarily.
>
> "They have nothing to do with putting things into it.
>
> "They say nothing about right to copy or right to use; they speak only in terms of right to exclude."[7]

The Patent Act itself speaks only in terms of § 102, "Whoever invents * * * *may* obtain a patent therefor."—A permissive grant, with no words of punishment or taking from the inventor any rights if he fails to exercise his permitted option to seek a patent. The statutory title of that Section 102 expressly limits its treatment to "Conditions for **patentability**" and "loss of right to a **patent**", no reference being made to loss of any other right. See p. 4 above.

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[7] The Honorable Judge Giles Rich, in *Mine Safety Appliances Co.* v. *Electric Storage Battery Co.*, 405 F2d 901, 902 n 2 (CCPA 1969).

I. There is a U. S. Supreme Court "legislative history" of the doctrine of patent and copyright law preemption, comprising this court's opinion in *Gibbons, Singer, INS, Becher, Kellogg, Scott Paper, Mazar, Sears, Compco, Lear* and *Goldstein.*[8]

Not once in those which found any preemption cases, has there been one issue on or one word of briefing to the Court about fraud, breach of trust or confidence, the economics of technology development and commercialization — for a breach of a personal relationship of trust was not involved in any of those cases.

And as the Sixth Circuit has said since *Kewanee,* in *Screw Machine*[9] where fraud is involved you don't need a copyright [or patent] to protect against wrongful appropriation of another's catalog [or technology].

In fact, the entire preemption doctrine commenced in erroneous dictum in *Singer* and *Kellogg* where the correct *result* was dictated by the trademark law and the court erred in attributing that result to patent law preemption — and the erroneous dictum has grown, as a science fiction monster feeding upon itself might grow, into the error of *Kewanee.*

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[8] Gibbons v. Ogden, 22 U.S. 1 (1824); Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896); International News Service v. Associated Press, 248 U.S. 215 (1918); Becher v. Countoure Laboratories, Inc. 279 U.S. 388 (1929); Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938); Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945); Mazar v. Stein, 347 U.S. 201 (1954); Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting Inc., 376 U.S. 234 (1964); Lear Inc. v. Adkins, 395 U.S. 653 (1969); Goldstein v. California ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

[9] Screw Machine Tool Company v. Slater Tool and Engineering Corporation, 480 F.2d 1042, 178 U.S.P.Q. 325 (6th Cir. June 15, 1973).

The correct unfair competition law (including the law of unfair appropriation of trade secrets) is the proper basis for effecting the socially desirable results of *Singer, Kellogg,* etc., rather than a bull-in-china closet doctrine of patent-copyright law preemption by which unfair competition law in gross is rendered a nullity without any chance at discriminating consideration and refinement of it on its merits.

J. As this court itself has often written, there are issues as to which the legislative process is the only governmentally acceptable process for the change of the law.

When uniformly accepted law has been the basis for billions of dollars in economic investment and literally hundreds of thousands of contracts, as is the case here, and when the Court has no access to hard economic data upon which to base sound conclusions on the domestic and international effect of a sudden change in the law, inherently in this situation any change in the law must be left to the legislative processes.

K. Sociologically and legally, the starting point is a common law right to copy and use that which you can learn of honestly.

To that general rule of free and open use of what one knows, are various exceptions, various rights to exclude based upon the social purposes of personal property, of trademarks, of copyrights, of trade secrets, of patent rights, even rights to exclude your neighbor from maintaining a public nuisance or polluting the air with his duly patented invention.

The nature of the various intellectual property law exceptions to the general right of free and open use of what

one knows, i.e., the nature of the various rights-to-exclude, is that each exception-right-to-exclude stands in the light of its own social purpose, each casting its own shadow of its own scope, shape, premises and term — shadows of social purpose which may overlap in part but which do not fight, shadows which permit one right-to-exclude to begin and end in response to *its own* social purpose, not affecting or preempting the social purposes which gave rise to the other shadows of rights to exclude.

VI. Conclusion: The Sixth Circuit rule in *Kewanee* must be reversed.

Preemption law has never been applied by this Court to breach of trust and confidence situations, and it must be limited so as never again to be thought of as possibly applicable to breach of trust and confidence issues.

Further, the long term correct solution to the entire intellectual property complex involves a federal or uniform unfair competition law correctly refined with its own limits, with none of the intellectual property law of patents or copyrights held to preempt any socially proper unfair competition law.

—And that is within the proper legal power of this Court, for example, under the Pan American Convention (p. 45-46 *infra*) if not by way of partial modification of *Erie* v. *Tompkins*.[10]

[10] Erie Railroad Co. v. Tompkins, 304 U.S. 64 (1938).

V.

ARGUMENT

A. Contract Values and Types Invalidated by Kewanee

Common contract forms in widespread use in industry which are essentially devastated by the rule of patent law preemption of contracts, include these:

(1) The contract for R & D

Companies commonly contract, perhaps at the hundred-million-a-year rate in the aggregate, for outside R & D work by independent or university labs. A typical contract, shall we say for research into how to grow large crystals, might read:

> "Company shall pay $500,000 for R & D by lab. Lab shall disclose the results of R & D to Company. Neither Lab nor its employees shall disclose the results Company paid for to competitors or use the results competitively for ten years."

By the preemption rule that last clause is a nullity. The Lab's employees are free one year after a commercially important idea is placed in use, to use the information in a commercial frolic of their own. If the Lab's employees can do that, indeed the Lab itself after a year's use can disclose the results to competitors perhaps for a little cash, or can set up a subsidiary to compete with the customer for whom it did the work.

Query: Who could afford to contract for outside R & D in the United States, if the cream of the results are open for free appropriation by the Lab's employees and/or the Lab and/or competitors learning from either of them, within one year? If R & D buyers cannot buy in the U.S., what

happens to all the nation's companies who do R & D work on contract? What then happens to the progress of technology?

(2) Supply contracts.

Supply contracts for manufacture by a supply contractor, with proprietary know-how of the buyer, are entered into regularly in our society, perhaps at the rate of tens-of-millions a year. Example:

Company in its own R & D work develops a process for making carbon black which uses a unique new autoclave reactor with toroidal flowing gases. The reactor developed in the R & D is proven-out by a year's pilot commercial operation. Company now wants to equip all its plants with the new autoclave reactor. Since Company is in the carbon black business with no facilities or know-how for economic autoclave reactor manufacture, it costs Company $50,000 to make a reactor of uncertain life; but Supply Contractor which is in the autoclave reactor manufacture business and is set up for that kind of work can make and guarantee them at $35,000 each — provided it is given the secret process-specifications Company has developed. The contract typically takes the form:

> "Company discloses detailed process-specification for new secret reactor to Supply Contractor. Supply Contractor agrees to make 150 reactors at the rate of one per week, at $35,000 each pursuant to Company's specifications. Supply Contractor agrees to keep the specifications secret and to require that its employees keep the specifications secret and not use any of the disclosed specifications for their own or another's account."

But under the *Kewanee* rule Supply Contractor's employees cannot be bound by the last sentence of the contract. Nor can Supply Contractor.

Under the preemption rule everybody must inevitably avoid as the plague any supply contract for proprietary type equipment designs, lest the act of contracting effect a publication of the secret specs to all competitors.

Thousands of small businesses which live in major part on supply and similar subcontracts must inevitably be severely hurt.

(3) The subcontract

The subcontract by which a major contractor subcontracts out the manufacture of major subassemblies and parts is a special form of supply contract which is entered into regularly in our society, perhaps at the rate of millions a year in addition to other forms of supply contracts.

The preemption rule does the same sort of gross injury to current industry subcontract practice as to supply contract practice, above described.

—With resulting injury to the entire economy and most particularly to the smaller subcontractors whose primary business involves designs proprietary to general contractors for jet engines, commercial aircraft, buses, etc.

(4) The employee contract.

For the reasons inherent in what has been outlined above, hundreds of thousands of engineering and R & D employees are bound by existing contracts with thousands of employers, not to disclose their employer's trade secret to others. The assets so protected are multi-billion dollar values.[11]

By the square holding in *Kewanee* those obligations of confidence are void as to technology in use for a year.

A very important point inherent in this result which was not acknowledged by the *Kewanee* court: The *Kewanee* rule not only opens the door, it affirmatively invites disruptive raiding of key employees of competitors on a regular, planned basis.

How much such raiding will in fact occur is a speculation for the future time when, if ever, the *Kewanee* rule becomes accepted law; how debilitating that raiding will be to business is necessarily also conjectural. But clearly, business can not well and efficiently serve society's needs for goods and services and progress in the arts if there is massive employee raiding and no employee stability among those who do the big R & D projects.

Another point: Many businesses now encourage their employees to learn all they can about the technology of the product line, believing that the salesman is a better salesman if he knows, the vice president is a better vice president if he knows; the service man is a better service man if he knows, etc. But every raidable employee is a potential leak. If none of them can be trusted to keep the secrets, then businesses must bias their internal practices toward insulating all employees from knowledge he does not have a direct important need to know — with resulting loss of efficiency throughout the enterprise, with loss of the values of cross-fertilization of thought among technologists, etc.

(5) The know-how license contract.

Technology within the *Kewanee* rule is a commodity bought and sold in the market place primarily by the device

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[11] See Appendix A.

of the know-how license.[12]

The total payments for know-how licenses run in the millions-a-day, billions-a-year orders of magnitude.[13]

A strangely little known but certain truth is that in terms of actual de facto selling market activity, there is almost de minimis active market for patents as such but there is a big and quite active market for know-how technology packages both with and without patents as significant parts thereof.

Individual licenses for chemical processes and plants therefor have in the decade of the 60's gone at prices quite often in the multi-million dollar range.[14]

But under the *Kewanee* rule, to offer to sell your know-how at an appropriate price, is an invitation to your

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[12] Here note that the bulk of the value in know-how licenses commonly is not in concept, truly "secret" information.

For example, all the essential elements for the manufacture of polyethylene, carbon black and many other chemicals, are now published in the literature including patents. But the wheat elements of information are relatively few and are scattered among and lost in a mountainous haystack of chaff information.

In the haystack of mankind's technological knowledge-that-is-an-impossible-data-retrieval-problem, the publicly available items of knowledge are not evaluated *as against* the hundreds of alternative suggestions also available. The reading of an item of information in a publication does not give the reader the kind of value judgment that experience in use of the item in several contexts and various parameters gives. The essence of know-how is the experience-value-judgment added onto the otherwise sterile knowledge of the concept, the result of a process of distillation of compatible and efficient parameters and assemblage of them into a package of known utility, the individual elements of which are not really secret.

[13] See Appendix A.

[14] See, for example, *Imperial Chemical Industries, Inc.* v. *National Distillers and Chem. Corp.*, 342 F.2d 737 at 744 (2nd Cir. 1965) where Toyo of Japan had agreed to pay about $6,000,000 for information on how to build a polyethylene reactor.

offeree to come raid for key technical employees, thereby to get for a couple of $25,000 bonuses to the key employees what otherwise would cost perchance several hundred thousands or millions in a know-how license.

Under the *Kewanee* rule know-how licenses can never again be offered freely in the market, can not move in the market place at prices commensurate with the value of the know-how.

The foundation stone of all economics, that you cannot get something for nothing, tells us that if the know-how cannot be sold for its value, the incentive to produce it must deteriorate, the commitment of capital to R & D must diminish, the progress of the arts must decline.

(6) Access to foreign technology.

United States now pays sums approaching the order of one hundred million dollars a year for foreign technology within the *Kewanee* rule.

But a foreign owner now knows that if he licenses a U.S. licensee, the employees of the U.S. licensee cannot be bound to honor the obligation of confidence — nor can the U.S. licensee be held accountable.

For a German company to license, shall we say, ABC Steel Company in the know-how for manufacture of unique electric steel alloys, is to have a Japanese, French, British and five other U.S. companies all raid ABC's key employee group as fast as they learn, thereby to compromise essentially the entirety of the German licensor's know-how. *Kewanee* forces the German company to refuse to license U.S. buyers of technology.

Moreover: The raiding by the several of the employees of the one licensee, ABC, may conceivably be faster than the ABC's employees' learning rate. So ABC may never get effective operating knowledge of what it paid for, even if it could get the license.

The *Kewanee* rule is thus seen severely to deter access to foreign technology by U.S. industry.

(7) Know-how sale to foreign purchasers, and our balance of payments deficit.

United States industry now receives payments approaching roughly the order of magnitude of a billion per year, from foreign buyers of U.S. technology within the *Kewanee* rule.

At a time when the U.S. balance of payments deficit is buffeting the dollar and the entire economy of our nation, a billion dollar annual foreign credit from this source is of no small importance to the nation's capacity for economic competition with the family of nations. Most of this money, coming as it does from technology sales, is directly returned to new technology development.

But under *Kewanee* the potential foreign licensee can pay a few $25,000 bonuses to key employees, set them up in Cleveland or Cincinnati teaching what they know, and get much of the same know-how they now pay hundreds of thousands and millions for.

The *Kewanee* rule would be a significant blow to the national effort to maintain a favorable international balance of payments.

So far as appears, the court in *Kewanee* gave no consideration to any of the factors above, except the specific issue of employer-employee contract.

When the meaning of a phrase actually written in a statute is being interpreted, disregard of the economic impact of the construction may perhaps be justified.

But when as here a court is writing into the Patent Act a wholly new provision not in the statute, it behooves the lawmaker to hear evidence on and consider the economic impact of the new section it writes into the Act for the Congress.

B. The Kewanee Bias for Business to Move In-house R & D to Foreign Countries

Perhaps more significant, is the *Kewanee* rule's long term bias against doing even in-house research and development work in the United States when it can be done in a foreign country.

Patents, of course, cannot now be depended upon validly to protect other than the creme-de-la-creme of the results of major research and development budgets Society lives off the milk product of capital investment in research and development which is outside reliable patent protection.

Knowing that the results of major-project research and development needs legal protection, will not corporations be biased by the *Kewanee* rule to move all the research and development they feasibly can from United States laboratories of their own to foreign laboratories with resultant loss of that technology from the United States and its labor force?

While we can debate the degree of severity of this debilitating bias that the preemption rule produces, it can hardly be questioned that it is at least severe — and necessarily in critical need of careful evaluation before such a preemption rule as would create such a bias is rigidified into law.

C. The Legal Theory of Trade Secrets

1. *The historical philosophy of trade secret law*: *the* relationship, *not the* res.

The trade secret law seems to have grown naturally out of tort, trusts, agency, property and contract philosophy and social purpose. Until very recently no one ever questioned its social propriety based on a sort of writer's-choice of any one or more of these several grounds.

If it cost $500,000 to engineer into a working process, the concepts of which were already disclosed in patent, trade journals and college texts, it was natural to property law concept that the party who spent the $500,000 should own the technology it paid for.

If an employee were entrusted with his employer's confidential business information, it was natural to the law of trusts and to the tort and agency law concepts that he be obligated not to breach the trust, the obligation of confidence.

If the information were licensed by contract to another company, so that it could avoid the risk of R & D failure, the time required for major developments, and the inevitable cost overruns, it was natural to the freedom of contract concept that the contract be honored. No evil was seen in a contract, "I'll pay X dollars for your secret and I won't tell anyone what it is."

Although trade secret protection is vital to proper sponsorship of progress of the useful arts,[15] none of these social purposes out of which trade secret protection arose are quite the same as the copyright or patent social purpose to induce progress in knowledge and the useful arts. None of these socio-legal purposes had to do with trade or competition except as possibly happy incidents. They had to do with property and good faith and ethics and equity.

None of the socio-legal concepts had a time-factor in them and no time factor is found expressed in the law (contrast the facts) of trade secrets. Thus, in *U. S.* v. *Dubilier* the Supreme Court said at p. 186:

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[15] See Chapter D, p. 35 hereof.

> "He [the inventor] may keep his invention secret and *reap its fruits indefinitely*" (Emphasis added)

As a parrot speaks without thought or comprehension of his meaning, so some have translated the lack of time factor in trade secret law into an allegation that if a trade secret has no time limit, it is in some way equivalent to a perpetual patent or to a monopoly, or that a trade secret "extends" the life of a patent. Nothing could be further from the truth.

The foundation stone of all trade secret *remedies* is a relationship between two parties, a disclosor and a disclosee — an obligation of confidence between a disclosor and disclosee. In the most famous of United States Supreme Court trade secret cases, Mr. Justice Holmes reminded us:

> "The word "property" as applied to • • • trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. • • • The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that defendant stood in confidential relationships with the plaintiffs," *DuPont* v. *Masland*, 244 U.S. 100 (1917).

In trade secret law the *relationship*, not the *res*, is the thing.

Thus the remedy in trade secret law does not control the technology, only the processes of derivation of the technology. It keeps the disclosee ethical. It keeps the know-how acquisitions both ethical and consistent with the inescapable hard realities of R & D economics in

action, that he who pays must have a right to control and market what he paid for, else he soon can no longer pay for R & D. But R & D is open for all to enter.

2. Trade Secret Law leaves others free to compete

The trade secret social purposes do not prevent others from using public sources of information, do not prevent others from developing the same new technology themselves and using it and also selling and licensing it. Frequently a number of companies are competitive bidders to license their technology for manufacture of the same product.

As to each individual secret the obligation is commonly only of one or two people (disclosees), or four. Of hundreds of reported cases reviewed none has been noted to involve as many as 10 disclosees (though some know-how packages are licensed to many buyers whose total informed employee group must sometimes exceed ten persons). The remaining 210 million Americans and all billion or so foreigners remain free to develop, use and publish the same concept.

This of course is not to say there are millions or billions of de facto potential competitors. Those people here and abroad have organized thousands of industrial businesses. By virtue of interest background, capital structure and geography, the number of for-real potential competitors may be only a dozen in some areas of technology. But both domestic and foreign businesses are dynamic, not sterile or static. They continuously search for and find areas of public need that can be served for profit.

For social planning purposes they can be depended upon to leave no significant public need, long unserved. — Not if the need is important enough for a buck to be made in serving it.

Kewanee oil's alleged interest in perpetual secrecy not-

withstanding, this is a key and undeniable point in the picture; essentially every manufacturer assumes and knows in today's high paced world that *if his secret process or manufacturing jig is worth competitive pursuit,* his competitors will find it, or its equivalent, or its improvement, in a very few months or years. — Like two, four or ten months for any individual secret. Even for whole chemical-plant-process and related plant equipment, two, four or six years almost at the outside, and for all practical business planning purposes, essentially never longer than eight years. (Long term know-how licenses most commonly have continuing R & D service features).

The fact that Kewanee Oil's Harshaw division is reported to have *sought* a longer term secrecy and exclusivity, does not change the fact that if the public had enough interest in it to justify competitive efforts, Kewanee Oil would not likely have in fact enjoyed long term exclusivity of its know-how. Moreover, even if Kewanee Oil's large-size crystal growth could have been an isolated freak of a situation where long term exclusivity might have existed, the entire public policy dog must not be permitted to be wagged by a diminutive tail. For without question, in essentially all situations competitors do develop, and can be depended upon to develop, the same, equivalent or better know-how in short order once the commercial market value in so doing is present. — And until that commercial market value is present there is no significant public disservice in permitting the secret to be kept from a public that has no need or interest anyway.

So, de facto, trade secret protection is not only uncertain in time, it is also short termed in time of protection in all but a de minimis number of cases involving surely less than one-tenth of one percent of technology value. It is essentially never monopoly power even for a few years.

Public policy must be based upon the typical and common situation, not the rare atypical situation.

And as to products which are placed on the market and are available for competitive purchase and reverse engineering, the competitive access is often almost instant and always pretty quick.

3. Trade secrets an extension of the patent "monopoly"[17] Or, patents an extension of the trade secret nonmonopoly.

It was apparent even before Galileo's day that men would not for long, yea could not for long, put their mind to making contrivances for the benefit of realm, if the results of their investment were not to be *better* protected

[17] We use the phrase "patent monopoly" because Mr. Justice Black in *Lear* and the *Kewanee* court did; but this is not correct in pragmatic reality. When theorizing on public policy, there is much mischief in thinking of patents as being more monopolistic than they really are.

A patent by legal definition covers only things not before known or used, nor to those skilled in the art obvious from all that was before known or used. Hence, it takes nothing from the existing public enjoyment.

A patent, working in that context, only rarely monopolizes a relevant market. Bulova's patent on its Accutron tuning fork watch movement has great commercial value, but more non-Accutron than Accutron movements are still sold and Accutron movements must remain more price competitive than not. Polaroid's patents on instant snapshots are of great value; but more noninstant than instant pictures are still taken and Polaroid cameras remain more price competitive than not, with German, Japanese and other United States manufacturers. Xerox by its tremendously dramatic improvement in the cost/quality ratio over heavy-paper photostatic negatives and fragile heat-process Thermofax copies, enlarged the office copy market many many fold; but it seems an absolutely sure bet that there are now many more nonXerox machine copies made annually than were ever made by all the industry before Xerox so served the world with its lower cost, better copy.

Patents are not "monopolies" because the things they cover remain subject to competition from what the public used before as well as what competitors invent anew to stay abreast.

than secrecy permitted.[18] The intent of patent law in the 15th century, as in our Constitution, clearly was not to confiscate men's conceptions, was not to take away the personal property right of a man to keep his secret. Rather, it was to "secure" in him some rights *beyond* what his secrecy would normally afford him — for "securing" the otherwise uncertain protection of secrecy would promote the progress of the useful arts.

The patent grant authorized by Title 35 United States Code is an effort at that.

Instead of the uncertain protection time of zero, two, four or six years which secrecy affords only in an erratic pattern of *some* instances, the patent grant is affirmative for 17 years for only the important inventions that qualify for patents, irrespective of secrecy. Instead of a trade secret right against the one to perhaps six disclosees with the rest of the entire world's people in thousands of universities and industrial businesses free to develop and use independently, the patent right is against the 210 million people in thousands of businesses in our nation and also against all foreigners who would practice the invention in our nation (and foreign industry is very active in our nation).

The trade secret never inhibits the dozens to thousands of actual or potential businesses in their use of any merely *alleged* secret which is in fact publicly available, nor restricts competition in things already in the general public enjoyment, for there is no confidence to be breached if the public has general access to the alleged "secret". The true trade secret is thereby inherently concerned with new things and processes in the course of being brought into the public enjoyment, and mightily *contributes* to competition at this vital threshold, the threshold of new technology.

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[18] See Chapter H and the text related to note 32 infra.

The trade secret is thus seen to be not de facto a monopoly right. For it, its equivalent or its improvement is too available to too many potential competitors, whenever it is valuable enough to justify their effort. The more the commercial value, the quicker the competitor can be trusted to develop the same thing or take a license.

The trade secret is not monopoly oriented. It is good faith ethics and equity oriented.

D. Trade Secret Protection Is at Least as Important to the Progress of the Useful Arts as are Patents.

The court in *Kewanee* quoted with approval writings on the alleged mischief of trade secret protection and wrote always consistently with an erroneous premise of fact that: Trade secret protection is inconsistent with progress of the useful arts and patents are the only inducement to such progress.

The court had no evidence on such a fact finding before it, no testimony of business men who budget R & D or buy or sell its resulting know-how, no testimony from technology economists. The court was indulging what Mr. Justice Frankfurter called "sterile generalization, unnourished by the realities of law in action."

It seems a possibly interesting exercise to indulge some theorizing of our own by way of contrast. —Theorizing based upon the practical day to day experience of this amicus, in the arena where the action is.

• • •

Patent validity is determined by an unrealistic and harsh standard. Valid patents are limited to inventions which by judicial hindsight are held to have been nonobvious in light of carefully selected and juxtaposed portions of all the sum total of mankind's prior published knowledge. The selection and juxtaposition of the few items of prior art from the millions of prior items of knowledge is accomplished by use of the invention itself as the screening tool which separates out and arranges together perchance three needles of compatible knowledge from a mountain-sized haystack of chaff prior knowledge.

Three or four prior art ideas, scattered among all man-

kind's prior relevant and irrelevant knowledge, often do not jump forth together as compatible for a new inventive function. But a patent infringing plagiarist will take invention parts disclosed in the patent itself, and search for thousands of dollars worth of time to find and select those particular kernels of wheat information and screen out all the chaff information. Then when defense counsel puts them into physical juxtaposition before the judge, explaining just how they can be fit together, those same three or four prior art references then *appear* in that *hindsight* review to have been obvious to select and obvious to combine. When the defense counsel concludes his pitch, no judge can really separate himself from hindsight psychology and put himself into the art with the men who worked there as of a many years' earlier time.

By contrast the foresight-developer, upon whom society inherently relies to progress the useful arts, cannot ever really know and have mental mastery over all possible relevant prior knowledge ("prior useful art"). Yet he inevitably does have knowledge of tremendous masses of chaff art and little to guide him as to which of the items of art are the technically feasible items or whether if technically feasible they may be commercially economic to combine in his particular application.

So the foresight developer must spend many R & D dollars trying to select the useful needles he may not know of and may not believe are there, from the haystack of chaff art he does know of or have library access to, often without faith that an answer exists anywhere, without benefit of the patent infringer's certain knowledge that the answer both does exist and is economic, and without benefit of a screen for separation of useful from chaff knowledge.

Thus, inventions which are hard and expensive to make

and develop are by the nature of the patent law quite commonly not protectable by that law.

These unprotectable inventions are the milk upon which society's technology lives. The patentable inventions, the cream inventions, are used to make frosting on an R & D budget or to reduce losses being suffered by an R & D budget. They are very important. But they are worth much too little to support all the economic requirements of new technology which includes many many more expensive failures than valuable successes.

* * *

Another point clearly misunderstood by the *Kewanee* court is this: Patents by their nature cannot and do not disclose all new technology; the patent is not a carrot that *can* fetch public disclosure of the mass of technology within 35 U.S.C. § 101.

The manufacturing specifications for each application of a patented concept may represent hundreds of thousands or millions of dollars' worth of engineering time[19] — distilled and developed know-how that others could develop from patent and text book disclosures but only at a similar cost in market lead time and money.

This engineering detail is commonly developed again and again for each new application of the invention's concept, long after the patent application is filed, long after the patent issues, even after it expires. For example, the hydroelectric turbine applications engineering might be developed before the application for patent on the turbine concept is filed; and a steam turbine applications engineering might be developed while the patent application is pending; and the jet engine applications engineering might

[19] Many developments (e.g. see note 21 infra) cost hundreds of millions of dollars.

be done not by the patentee but by a patent-licensed competitor five years after the patent issues and again by yet a foreign competitor selling a much larger model in the U.S. five years after the patent expires.

Inherently, a patent can not disclose the engineering detail for all applications of the inventive concept — no ten buildings in Washington would hold all the paper even if it existed at application filing time which it does not. Consistently with those pragmatic facts of life the patent statute requires only a disclosure sufficient to permit others skilled in the art to carry out the basic concept. The patent statute requires a disclosure of the concept of *one* mode, i.e.,

> "the best mode contemplated by the inventor of carrying out his invention" [inherently, at application filing time]. 35 U.S.C. § 112.

Other modes including the engineering details of such other modes, *by statute* need not be disclosed in the patent. Many of them simply *cannot* be. The patent law does not purport to protect the engineering detail, the specifications producible by a number of engineers skilled in the art once the concept is in hand. The patent law does not treat this know-how at all, one way or the other.

There can be no "conflict" with the patent law's treatment of trade secret know-how, if the patent law does not treat of it at all, one way or the other.

* * *

A made-up but real-life example will make understandable the point that know-how protection by trade secret law, independent of patent law, is vital to progress.

Assume a 1968 reality that the broad concepts of internal combustion turbine design are available to industry either

from history at no significant cost, from the subsidized academic community again at no significant cost, or from prior government research, again at no significant cost. The concept was disclosed in patents in the thirties and had been successfully applied to military aircraft in the forties.

Project: Design a 1973-generation jet engine for the Lockheed air bus. It must meet new high performance specifications as to thrust, speed, fuel consumption, air pollution, noise, light weight, flexible controls, serviceability, service life, manufacturing ease and cost — on all of which the know-how is confidently and publicly stated to be "available."

Even with the then generation of Pratt and Whitney and General Electric and prior Rolls Royce jet engines, used both on U. S. and foreign commercial and military aircraft, from which to draw such ideas as are available on the open market, essentially that very project, above outlined, proved so expensive in time (years) and money (hundreds of millions of dollars),[21] as to bankrupt one big jet-engine-experienced company, Rolls Royce, and contribute to Lockheed's having to ask the U. S. government to bail it out.

The choice of details of dimension of a thousand parts, temperatures of operation, choice of metallurgy, speed of rotation and centrifugal force on blades, pressure on gas and air to burn how fast — the distillation of a million "obvious" details into a compatible package of engine and related manufacturing know-how that progressed the useful arts, has to be paid for by somebody or society will not enjoy the progress this new bigger, better engine affords.

From the advancement of the art point of view and from the economic point of view, no one could care less whether

[21] United Aircraft's *Daily Newsletter Supplement*, July 18, 1973 reports the development cost of Pratt and Whitney's JT9D for Boeing 747s and DC-10s as "half a billion dollars."

the requisite protection is by private self-help (e.g. secrecy) or by government grant (e.g. patent) so long as the protection is feasible to the inherent facts of public enjoyment of the fruits of the technology and is effective enough to permit recovery of the investment and the profit thereon which is necessary to induce the investment.

Assume a not-unlikely fact, that Pratt and Whitney had already done most of the half billion dollars' worth[22] of work to produce an engine at least 90% as good as the new Rolls Royce engine and has been using it for a year in making engines for, perchance, Boeing 747's. Would society be served by permitting Rolls Royce to hire a dozen Pratt and Whitney select top engineers and use all their know-how?

With much of the development cost and time saved, Rolls would have been saved from bankruptcy and would be able to sell its engines earlier and perhaps 20% cheaper which clearly would serve the public with cheaper air travel — and which would likely bankrupt Pratt and Whitney because then it would either (a) lose its sales to Rolls Royce and fail to recover its tremendous development costs, or (b) cut its price to get business, by roughly the amount of the development cost that its competitor did not pay for, and thereby fail to recover its development costs.

— Which must mean that next time the money won't be available to commit to the development.

—Which must mean stagnation of the advance in the art.

Examples of society's need for patent protection are skipped here, for they are not the point of this paper; but by this example, of which many abound, it is seen that patents are not the sole answer to industry's need for

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[22] Id. See footnote 21.

technology protection in situations wherein protection of unpatented know-how may be vital.

Overall, the R & D dollar, on which the nation is critically dependent for the advances necessary to maintenance of its standard of living in a growing society with diminishing resources, cannot be supported by either trade secret or patent protection alone.

• • •

The trade secret protection is limited by such factors as:

The trade secret is limited to the few people involved in the disclosor-disclosee relationship;

Billions of people domestic and foreign, college professors and university doctorate candidates, dozens, hundreds or thousands of businesses, are free to develop and use and/or publish the same thing and improvements thereon;

There is a high dependability of timely competitive development of any secrets which are commercially important enough to justify the effort;

Trade secret subject matter is limited primarily to things not disclosed by the marketed product but rather practiced in-house;

Know-how licenses on the really big developments are commonly available;

— These and other factors limit trade secret protection at its worst to an inherently minor restraint on competition, nowhere near a monopoly.— Most commonly as minor as a pitcher of water taken from the swimming pool of competition.

The minor restraint, if any, is to be balanced against public policies favoring the right of personal property (which trade secrets assuredly are), the right of privacy

(should proprietors be forced to cough up their secrets to competitors after one year?), the social need for business ethics and business's capacity to en*trust* a confidence to a business associate, and the need for business men to be able to enter into license contracts, R & D contracts and supply and subcontracts for manufacture with proprietary know-how.

* * *

The patent law, as to important conceptual innovations is a needed statutory extension (both as to what otherwise would be secrets and also as to nonsecret inventions of patentable stature) of the common law trade secret right to protect secrets; this needed extension of trade secret protection is not a derogation of it.

Trade secret and patent law are like two horses hitched to the same public-interest-carriage — public interest in competition in innovation, in competition in R & D, in competition in bringing to public enjoyment things which are not yet there. No pursuit of competition in the static group of things already here can properly be set above the carriage of public interest in innovative new technology.

Trade secret and patent protection are both as necessary and as compatible as the two wheels of a bicycle, without which vitally needed technology progress cannot ride.

Nevertheless, arising out of different socio-legal philosophy they also are as different as a car and jet airplane which, while both providing transportation, are in no meaningful way equivalent, not in scope, not in persons affected, not in effective term, not in power of competitive restraint. And neither of them in the usual situation are anything near "monopoly."

E. Public Policy Favors Honesty and Loyalty

Except for a citation of two prior decisions which sustained breach of confidence causes, the *Kewanee* opinion gives no reference to the concept of trust, honesty or loyalty of employees to their employer, no mention of ethical wrong involved in a business reaping where it did not sow.

What ever happened to the morality of our forebears? Is there no social merit to such expressions as "A man's word is his bond." Has society no use for the concept of "trust," by which one man may entrust a confidence to another — and depend upon it?

What moral justification exists for A taking the value that B paid to create? What equity?

The *Kewanee* opinion encourages and sponsors the taking by indirection (by employment of the memory of another's employee) of the same technology value that by the *Kewanee* court, the Sixth Circuit, is still labeled as a crime called "theft," if taken by the direction of the employee's taking documents with the same secret processes written thereon.[23] Theft by any other name remains the same moral wrong. The possible existence of a federal criminal remedy under 18 U.S.C. § 2314 for secrets sold in interstate commerce is no substitute for a civil remedy for the party wronged.

Surely there must be a social policy favoring loyalty among friends, associates and employees, favoring an esprit de corps and morale by which employees serve their

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[23] U.S. v. Greenwald, 479 F.2d 320 (6th Cir. June 1, 1973), cert. denied ..... U.S. ..... (1973) held an attempt by a former employee to sell trade secrets, violated the federal criminal law 18 U.S.C. § 2314 proscribing transportation of "goods, wares and merchandise" in interstate commerce knowing them to have been "stolen, converted or taken by fraud."

employer with their heart as well as their hours. For business efficiency and hence capacity is importantly related to the loyalty and employee esprit de corps. If all the heart is taken from business relationships by law which sponsors disloyalty, the business community will assuredly cease to be able to serve society well.

All will recall the memory expert spy of the World War II movies who got jobs in U.S. plants, memorized data and disclosed it to the enemy. The *Kewanee* rule sponsors that spy-by-memory practice, as between domestic competitors and also by a foreign competitor seeking U.S. technology.

It is morally repugnant for spying to be sponsored by law.

When so many are free to compete, is freeing the competition of those very few who are disclosees sufficiently important to justify debilitation of honor, integrity, loyalty, and the property-like concept that he who foots the bill for producing technology should own the product to the extent of freedom against tortious breach of trust?

In the list of priorities of public policy the highest priority surely must be given to honesty and good faith in business dealings.

F. Treaty Law Compels Good Faith Business Activity

The Paris Convention and the Pan American Convention,[24] both treaties to which this nation is a party, proscribe acts "contrary to honest practices in industrial and commercial matters" and acts "contrary to commercial good faith or to the * * * honorable development of industrial or business activities."

The Supreme Court in *Bacardi* v. *Domenech* wrote:

> "This treaty [Pan American Convention of 1929] on ratification became a part of our law. No special legislation in the United States was necessary to make it effective."[25]

The Paris Convention has been repetitively held in the 9th Circuit[26] to be implemented in the Lanham Trademark Act of 1946, 15 U.S.C. § 1051 et seq. particularly Section 44(h) of the Act, 15 U.S.C. § 1126h. Other circuits take a contrary view.[27]

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[24] Paris Convention, Act of Lisbon 1958, Art. 10 Bis (2) recites "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." [which is prohibited]. Pan American Convention of 1929, Art. 20, reads to the effect, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and therefore unjust and prohibited."

[25] *Bacardi Corp.* v. *Domenech*, 311 U.S. 150, 161, 61 S. Ct. 219 (1940).

[26] *Stauffer et al* v. *Exley*, 184 F.2d 962 (9th Cir. 1950); *Pagliero* v. *Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952); *Neal* v. *Thomas Organ Co.*, 325 F.2d 978 (9th Cir. 1963) cert. den. 379 U.S. 828 (1964); *Audio Fidelity Inc.* v. *High Fidelity Recordings, Inc.*, 283 F.2d 551 (9th Cir. 1960); *Magna Pictures Corp.* v. *Paramount Pictures Corp.*, 265 F. Supp. 144 (C.D. Calif. 1967); *Ross-Whitney Corp.* v. *Smith Kline & French Laboratories*, 207 F.2d 190 (9th Cir. 1953).

[27] *L'Aiglon Apparel* v. *Lana Lubell*, 214 F.2d 649 (3rd Cir. 1954); *Royal Lace Paper Works, Inc.* v. *Pest-Guard Products, Inc.*, 240 F.2d 814 (5th Cir. 1957); *American Auto Assn.* v. *Spiegel*, 205 F.2d 771 (2nd Cir. 1953), cert. den. 346 U.S. 887; *Maternally Yours* v. *Your Maternity Shop, Inc.*, 234 F.2d 538 (2nd Cir. 1956); *Kaz Mfg. Co.* v. *Cheseborough-Ponds, Inc.*, 317 F.2d 679 (2nd Cir. 1963).

But *Bacardi* has not been overruled on the point that the Pan American Convention is self-implementing. Hence, either way you figure the point of whether the Lanham Act implements the Paris Convention, there would appear to be treaty law of the land, a federal law not preempted by patent law, which condemns breaches of confidence as surely as the state law of trade secrets.

And the treaties, both ratified by the Senate, reflect a Congressional attitude inconsistent with judicial disregard of "good faith dealings" in business and industry.

G. Criminal Public Policy v. Civil Public Policy

The Sixth Circuit Trilogy of Kewanee, Greenwald and Screw Machine

In May and June, 1973, the Sixth Circuit decided three cases we may here call the Sixth Circuit Trilogy, *Kewanee, Greenwald* and *Screw Machine*, in that order. *Greenwald* and *Screw Machine* clearly demonstrate social and legal inconsistency with *Kewanee* and teach what the law *ought* to be.

Kewanee was first. In *Kewanee* the Sixth Circuit (erroneously) announced in July 1973, a broad patent law preemption of state civil unfair competition law designed to foster commercial honor and good faith in technology dealings. There has been no comparable body of federal civil-remedy law since *Erie* v. *Tompkins*.[28]

In *U.S.* v *Greenwald*,[29] the Sixth Circuit affirmed that it is nevertheless a federal crime under a nonpreempted 18 U.S.C. § 2314 for a former employee to transport across state lines papers carrying representations of trade secrets.

[28] 304 U.S. 64 (1938).

[29] 479 F.2d 320 (6th Cir. June 1, 1973) cert. denied ..... U.S. ..... (1973).

The public policy against theft of trade secrets exists independent of patent law preemption — but only with criminal remedies.

In *Screw Machine Tool Company* v. *Slater Tool and Engineering Corp.*[30] the setting was a contempt proceeding in an unfair competition case. The Sixth Circuit said:

> "Since the basis of an action for unfair competition is fraud [citations] the [copied noncopyrighted catalog] material under consideration need not be the subject of a valid common law or statutory copyright. For example, in Socony-Vacuum Oil Co. v. Oil City Refiners, 136 F.2d 470, 58 USPQ 632 (6th Cir.), cert. denied, 320 U.S. 798, 59 USPQ 496 (1943), this Court held that an action for unfair competition would lie even where there was no infringement of an exclusive right in the name or symbol.
>
> **Similarly, the lack of a copyright in the advertising or promotional material used by the appellee** [and copied by appellant] **is not a defense to an action for unfair competition.**" (Emphasis added.)

Under *Erie* the only civil unfair competition law is state law, allegedly preempted by the patent and copyright law. But the public policy against unfair competition law continues to be socially expressed in the federal criminal law.

Is it not anomolous for our structure of judicial practice to repeal the civil remedies for unfair competition in the nature of fradulent theft of trade secrets while continuing to enforce the criminal remedies for the same offense — no legislative body having made such a determination?

But then the Sixth Circuit in *Screw Machine* recanted its *Kewanee* rule, for in *Screw Machine* the unfair com-

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[30] 480 F.2d 1042, 178 USPQ 325 (6th Cir. June 15, 1973).

petition (there much less fraudulent than wrongful appropriation of another's expensively developed trade secrets) was held not preempted by the copyright law which, per *Goldstein*,[31] clearly reaches the subject copied catalogs.

Why the recant?

Because the public policy against fraudulent types of unfair competition, and in favor of civil remedies therefor, transcends patent or copyright law preemption if any there in fact be.

Perhaps there needs to be a federal unfair competition law whereby federal courts can afford civil remedies for fraudulent types of unfair competition.

But assuredly there must be **some** civil unfair competition law. For the sociological need is demonstrated in the Sixth Circuit's own 1973 trilogy, *Greenwald, Screw Machine,* and the billions of dollars worth of contracts protective of trade secrets that are nullified by *Kewanee.*

And the need for civil unfair competition law is demonstrated in the Paris and Pan American Conventions.

Aye, perhaps there is the thought.

Erie need not be an impediment to the development of a sort of federal "common law" of unfair competition that is not preempted by patent or copyright law, because the treaties are not preemptable.

Clearly the treaties in general admonitions proscribe the Bicron behavior and support the federal court's adoption of the state trade secret common law as the implementation of the self-implementing Pan American and/or Paris conventions.

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[31] Goldstein v. California, ... U.S. ....., 93 S. Ct. 2303, 178 USPQ 129 (June 18, 1973).

H. Legislative History of the Patent Act

The *Kewanee* opinion does not reveal any interest in or attention to the legislative history of the *drafting* of past or present Patent Acts.

Since the *Kewanee* rule is in the nature of writing a new section into Title 35 (see p. 4-5 above), and since it is the writing of a one-sentence statutory section that is clear and easy for the drafters of the Patent Act to have themselves written if they so intended, it seems appropriate that we should review the legislative history of the drafting of the Patent Act, Title 35, U.S.C.

1. The Constitution on Patents

Patent law has been recognized at least since the 1474 patent statute by the city-state of Venice, which statute reads in part:

> "And should it be provided that the works and contrivances invented by them [men of clever minds], others having seen them could not make them and take their honor, men of such kind would exert their minds, invent and make things which would be of no small utility and benefit to our state."[32]

That clause found its way, in paraphrase, into our own Constitutional Art. I, Sec. 8, Clause 8:

> "The Congress shall have the power * * * To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

Power not given Congress was of course reserved to the states. Hence, **there is no void created** wherein powers not granted to Congress were nevertheless denied to the states.

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[32] Patent Study No. 15, 85th Congress, 2nd Session (1958).

Preemption thereby can not be larger at its biggest, than Congress's authority.

The Congressional authority is concurrent with that of the states, not to the exclusion of the states.[33]

A key point overlooked in all the preemption opinions is that the Congressional authority is dominated by the conjunctive preposition "by," which ties the purpose to the means and the means to the purpose, inseparably.

The Constitutional grant is of power to set up one system (not necessarily the only system) but for *one purpose only,* to promote the useful arts. That purpose is tied to a single recited means.

The means designated as Congress' only way to implement the one purpose, was to secure rights to inventors. But the use of the means, securing rights to inventors, is empowered to Congress only for the one social purpose, promoting the useful arts, *and no other purpose.*

It is palpably false to suggest that Congress was granted any prerogative to use that means, securing rights, for any other purpose, like business ethics and equity.

Use of that means for all other social purpose, like establishing business ethics and equity, was reserved to the states.

* * *

Recall that in England and in our colonies, circa 1788 when our Constitution was being phrased, importers of inventions from other countries, who were not inventors, were commonly awarded patents. Soon thereafter states of the United States granted patents to noninventors, at least

[33] Cf. *Goldstein* v. *California,* ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (June 18, 1973), holding the copyright portions of the same balanced sentence in the Constitution which authorizes patents, is a grant of concurrent not exclusive rights, to Congress.

some being granted clearly for the purpose of promoting the useful arts.

For example, New York granted a series of steamboat patents, first to Fitch whose patent was later canceled, then to Livingston, later to Livingston and Fulton, the latter of which was the subject of *Gibbons* v. *Ogden*.[34] Clearly Livingston neither conceived nor reduced the steamboat to practice; he was merely Fulton's financial investor and an influential benefactor; he was not an "inventor." But the New York patent to this noninventor, among others, was conditioned that within twelve months there be "built a boat of at least twenty tons capacity which should be propelled by steam, and the mean of whose progress through the water with and against the ordinary current of the Hudson's river, taken together, should not be less than four miles an hour".

Clearly the Constitutional clause did not give Congress the power to grant such patents to noninventors.

The patent clause of the Constitution did not give Congress the power to grant cash awards to distinguished inventors to induce progress.

The patent clause did not give Congress the power to do its own R & D to promote progress — not the *patent* clause.

Promotion of the useful arts by means other than securing rights to inventors, was power not given to Congress; rather it was expressly reserved to the states.

All powers not granted to Congress being reserved to the states, the states have the power to promote the useful arts, for example, (a) by awards to inventors; (b) by state R & D efforts through state-supported universities; (c) by

[34] 22 U.S. 1 (1824)

granting exclusive rights for limited times to noninventors, whether or not the subject matter is patentable or has been in use for more than one year.

All of this, including the state right to protect "unpatented articles" was argued to the Supreme Court in *Gibbons* v. *Ogden.*[35] Daniel Webster, and more completely the Attorney General, argued that the steamboat patent granted by the State of New York to Fulton and Livingston and acquired by Ogden, (i) was a nullity by virtue of federal patent law preemption and, (ii) could not be enforced against New York-New Jersey steamboat traffic because it was in interstate commerce, duly licensed pursuant to the commerce clause. Mr. Oakley in arguing in response to both patent law preemption and commerce clause preemption delivered the most complete argument against federal patent law preemption that has ever to this day been assembled anywhere. The report of the case summarizes Oakley's patent law nonpreemption argument for over 40 of the original opinion pages.

The court could decide the case for Ogden on either of Webster's two grounds, or both. One of the great judicial activists of all time, John Marshall, finding that the state patent could not be enforced against expressly licensed interstate commerce, declined to find on patent law preemption and left the state patent alive to be litigated again at a later date as against intrastate commerce.[36]

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2. The Patent statutes, generally

Various patent statutes were enacted under the constitutional clause.

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[35] 22 U.S. at 142 (1824).

[36] *The North River Steam Boat Company* v. *John R. Livingston* (son of Fulton's friend Robert Livingston), 3 Cowen 713 (NY 1825).

All spoke in terms that an inventor has the option (e.g. "may") of applying for a patent. Noninventors may not apply.

All spoke in terms that patentees would have X years (now 17 years) of protection.

A disclosure of the invention of at least some sort is inherently required in order to identify the thing patented; but the public service aspects of the patent disclosure seems to have found common expression only in modern, very recent literature, and it seems not to have been on *any*body's mind at least until after 1850.

The patent statutes were property-philosophy statutes, "securing" in inventor's their somehow inherently natural "property" right in their invention, the honor to the natural "property" right being also the carrot by which to induce both the sweat of inventors and the capital of their financial backers into R & D and also into market development.

The earliest treatise authority on patent law spoke of their relation to trade secrets, thus:

> "As the right of an inventor to his secret invention and to a remedy for the wrongs by which his property therein is injured, **are not dependent upon the provisions of the Patent Law, they exist equally whether the invention is or is not in its nature patentable.** * * *
>
> "If the creator of these unpatentable inventions chooses to preserve his secret he has a right to do so, *as also to communicate it confidentially under such restrictions as he deems expedient* * * * " Robinson on Patents, Vol. III, Sec. 873 (1890). Emphasis added.

* * *

The Constitutional grant is of one power to Congress to set up a system to promote the arts solely by the means of securing to "inventors" rights in their "discoveries," there being no Constitutional expression evidencing cogniz-

ance of a standard of novelty or patentability. Neither the word "novelty" nor "standard of patentability" or its equivword "novelty" nor "standard of patentability" nor its equivalent, is found in the Constitution. Clearly at the time of Constitutional drafting, every producer of a new gadet was within the connotations of "inventors." But the Supreme Court now writes that "The patent standard is basically constitutional" and construes that standard to be a high, difficult-to-obtain one.[37]

Since the Constitution reserved to the states all authority not granted to Congress, the protection of lower-standard inventions that fail to meet the Constitutional standard of patent protection for "inventors", cannot be preempted.

The antiprotectionist theme cannot either in logic or law have it both ways, that the Constitution limits patents to the very few dramatic technical breakthroughs while a statute pursuant to the Constitution preempts state action on all technology of lesser stature.

* * *

If the patent statute preempts, as alleged, all right to preclude the use of information, it preempts the state police power as well. It preempts the city's right to prevent manufacture of fireworks in the proximity of schools, for the few who would be involved in the manufacture are by the patent-law-preemption theory guaranteed that they cannot be precluded from using the public domain technology on fireworks manufacture by any other than the patent law.

Perhaps more pointed: If the patent law preempts all other social policy on rights to exclude, and thereby guarantees the right to use subject matter not covered by valid

[37] *Anderson's Black Rock* v. *Pavement Salvage Co.*, 396 U.S. 57, 61, 90 S. Ct. 305, 308 (1969).

patent, it guarantees the right to sell toxic drugs covered by expired patents, irrespective of state drug regulations for its public's safety.

The consideration of this ridiculous extreme forces the conclusion that preemption as a theory, forceably and necessarily reaches too far, hence must fail.

There is no conflict between a statutory extension of common law protection and the common law protection, no conflict between securing a right to preclude others for the social purpose of the patent system, and leaving untouched the common law right to preclude others for either the same social purpose (promoting the arts) or a different social purpose (preservation of private good faith in business dealings), both of which seem to be inherent roles of the trade secret law.

It would seem that if any one of the drafters of our many patent acts since the first one in 1790, had wanted to terminate trade secret rights after one year's commercial use, he might easily have so recited in the same paragraph where he cut off the right to file for a patent after one year's commercial use. But this, of course, was not done by the statute drafters. Contrast the copyright statute, 17 U.S.C. § 2, where the statutory drafter wrote upon and considered the scope of the preempted and nonpreempted territory — a clause for which the patent statute has no parallel.

The present patent law is the Patent Act of 1952, Title 35 U.S.C., the legislative history of which is peculiarly well recorded. And since that particular writing is the thing now alleged to preempt, the legislative history of that writing is of peculiar interest.

But before that history can have its full meaning, it is

necessary to understand the state of the law as of the time of drafting of the 1952 Code.

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3. State trade secret law development

State courts failed to find either evil or conflict with the patent law in the act of A contracting with B,

> "I'll tell you what I know, if you'll pay X dollars and keep the secret,"

so they enforced such contracts. They evolved a body of case law in most states. The state case law has always been essentially uniform in its view that obligations of confidence are enforceable in court — this even though the legal theories seemed not always the same.

Courts spoke sometimes in terms of property or quasi-property, sometimes not so much of property as of the tort of breach of confidence, sometimes of contracts and quasi-contracts.

But the gravamen of the cause remained always the enforcement of private good faith.

The Restatement of Torts in 1939 developed its expression, § 757, protective of trade secrets and confidential information. In Comment (a) to § 757, the Restatement of Torts discusses the rationale of patent and trade secret protection, as concurrent systems of protection without conflict between them.

The Restatement of Restitution (1937) provides in its § 136 for restitution of the value derived by use of another's trade secret.

The Restatement of Agency, 2nd (1958), tracking on this point the pre-1952 first Restatement of Agency, proscribes use of confidential information belonging to another, in its Sections 395 and 396.

The Restatement of Trusts, 2nd (1959), provides in § 82(e), simply: "A trade secret can be held in trust."

So stood the common law of trade secrets as of the drafting of the 1952 Patent Act.

There came a time after *Sears* and *Compco*[38] when trade secret pirates were operating with such vigor, that twenty-one states enacted criminal laws making it a crime wrongfully to appropriate a trade secret.[39]

The parallel of trade secret piracy and state legislative acts, to the sudden bloom of phonograph record and tape piracy after *Sears* and *Compco* which brought about state and federal legislative acts directed to that specific piracy, cannot escape notice. See *Goldstein* v. *California*, ... U.S. ....., 935, Ct. 2303, 178 U.S.P.Q. 129 (1973).

4. Congressional law on trade secrets

Congress itself has specifically sanctioned payment of consideration for acquisition of "secret processes, technical data, * * * and other property or rights by purchase, license,

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[38] Sears, Roebuck & Co. v. Stiffel Company, 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

[39] Ark. Stat. Ann. §§ 41-3949 to 3951 (1967); Cal. Penal Code § 499c (1967); Colo. Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967) (1967); Ga. Crim. Code § 26-1809 (1968); Ill. Rev. Stat. Ch. 38 § 15-1 to -9, § 16-1 (1965); Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969); Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967); Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967); Mich. Compl. Laws §§ 752.771 to .773 (1968); Minn. Stat. Ann. § 609.52 (1967); Neb. Rev. Stat. Ch. 28, §§ 548.01 to .03 (1965); N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967); N.J. Stat. Ann. §§ 2A: 119-5.1 to -5.5 (1965); N.M. Stat. Ann. § 40 A-16-23 (1967); N.Y. Penal Code § 155.00(6), 155.30 (3), 165.07 (1967); N.C. Gen. Stat. § 14-75.1 (1967); Ohio Rev. Code Ann. Tit. 13, §1333.51, 1333.99 (1967); Okla. Stat. Titl. 21, § 1732 (1968); Pa. Stat. Titl. 18, § 4899.2 (1965); Tenn. Code Ann. §§ 21-4328 to 4240 (1967); Wis. Stat. Ann. § 943.205 (1965).

lease * * * ." This statute is without regard to whether the secret processes have been in use for more than one year. 42 U.S.C. § 1857b-1 (b) (4); 16 U.S.C. § 778e (e); 30 U.S.C. 322 (b).

Congress also enacted Internal Revenue Code, 26 U.S.C. § 861 (a) (4) and 872 (a) (4) dealing with taxation of royalties for the licensed use of secret processes and formulas — relying upon the then law of trade secrets that did not terminate the license after one year.

Congress has passed a multitude of other enactments, in reliance upon the established trade secret law and without purporting to change it.[40]

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[40] See for example, the Freedom of Information Act, 5 U.S.C. § 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x, preventing the SEC from requiring that trade secrets or processes be revealed; Section 6(f) of the FTC Act, 15 U.S.C. 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. 1193(c) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. 1263(h) prohibiting any person from using or disclosing trade secrets acquired in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. 331(j) prohibiting any person from using or disclosing information concerning methods of processes acquired under Food, Drug & Cosmetic Act which are trade secret; 21 U.S.C. 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. § 1160(f)(2) providing that no person shall be required to divulge trade secrets at public hearings under the Federal Water Pollution Control Act; 42 U.S.C. 263i(3) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. 1857d(e)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. 1857f-6c(c) requiring trade secrets obtained by HEW

5. Supreme Court Law on Trade Secrets

The first presentation to the United States Supreme Court of federal patent law preemption of state powers over progress of the useful arts and/or over inventions, was in *Gibbons* v. *Ogden*,[41] where the New York state patent on the steamboat was before the Court. See page 51-52 supra.

At least as early as 1889 the United States Supreme Court was upholding contracts involving the conveyance of confidential information. *Fowle* v. *Park*.[42]

In *Board of Trade* v. *Christie Grain & Stock Co.*,[43] this court said:

> "In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It *stands like a trade secret.* The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's [citation]. *The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself,* under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach." p. 250-51 (Emphasis added).

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in connection with registration of vehicle fuel additives to be considered confidential; and 35 U.S.C. 122 providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

[41] 22 U.S. 1 (1824).

[42] 131 U.S. 88 (1889).

[43] 198 U.S. 236, 250-251 (1905).

The Supreme Court in 1911 stated:

> "A secret process may be the subject of confidential communication and of sale or license to use . . . ."
> Dictum in *Dr. Miles Medical Co.* v. *Park & Sons Co.*,[44]

The Supreme Court again sustained trade secret protection in 1917 in *DuPont Powder Co.* v. *Masland*.[45]

In 1929, the Supreme Court held:

> "It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relationships, *both matters independent of the patent law*, and that the subject matter of Oppenheimer's claim *was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust.* [citations] *Oppenheimer's* [*trade secret*] *right was independent of . . . the patent law . . . .*"
> *Becher* v. *Contoure Laboratories, Inc., et al*,[46] (Emphasis added).

Then in 1933 we find the Supreme Court again agreeing in *U.S.* v. *Dubilier*,[47] that:

> "He [the inventor] may keep his invention secret and reap its fruits indefinitely."

Such is the inventor's option, if he so elects. The Court went on to point out an alternative option:

> "In consideration of its [the invention's] disclosure, and the consequent benefit to the community, the patent is granted."

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[44] 220 U.S. 373, 402 (1911).
[45] 244 U.S. 100 (1917).
[46] 279 U.S. 388, 391; 49 S. Ct. 356, 357 (1929).
[47] 289 U.S. 178, 53 S. Ct. 554 at 557 (1933).

In the famous and oft-followed-sometimes-distinguished *INS* v. *AP* case,[48] the Supreme Court in an unfair competition case where copyright law preemption was strongly urged upon the Court, applied a nonpreemption rule. There the Supreme Court held that the commercial use for profit of even published information was in the circumstance there present a "misappropriation" of "quasi-property" that was not sanctioned by the copyright [or patent] laws.

All that law was Supreme Court law prior to *Erie Railroad Co.* v. *Tompkins*.[49] when there was a federal common law. When *Erie* terminated that law, those opinions nevertheless were followed in the state courts.

Never in any case where trade secret law and industry practice was briefed to the Court, has the Supreme Court intimated any retreat from the law so announced.

The *Kewanee* opinion cites *Grant et al* v. *Raymond*,[50] as though it infers something inconsistent with the above; but not so. The issue in *Grant* was the validity of the reissued patent when the patent owner had first obtained a patent containing a defective disclosure, had surrendered that patent and obtained another with a corrected specification. In approving the reissue patent procedure, the Court seems to have written in context of an assumed right of the inventor not to seek at patent at all.

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[48] International News Service v. Associated Press, 248 U.S. 215 (1918).

[49] 304 U.S. 64 (1938).

[50] 31 U.S. (6 Pet.) p. 218 (1832).

The *Kewanee* opinion also quotes from *Kendall* v. *Winsor*,[51] dictum expressions suggested to connote forfeiture of trade secret rights if a patent were not promptly sought. But suit there was on a patent, not on trade secret rights. The issue there was not loss of trade secret rights, but loss of the right to seek a patent by commercial exploitation of the invention for a long time before filing for the patent — and the court *sustained* the patent over the thereoccurring delay. There being no trade secret issue before the court, no evidence of R & D economics before the court, and so far as appears no briefs directed to the breach of confidence theme, the case is hardly a proper authority for any factual findings about impeding progress through one inventor's keeping of his own secret, all others being free and unrestrained.

Supreme Court law, *in trade secret cases,* has **always** supported trade secret law as not preempted by patent **law.**

6. Federal Courts of Appeal on Trade Secrets

The Courts of Appeal, following the lead of the Supreme Court and of state courts since *Erie* v. *Tompkins,* have sustained trade secrets in numerous cases ranging over the circuits. The *Kewanee* opinion acknowledged four such opinions from four different circuits since *Sears* and *Compco* which conflict with *Kewanee.*[52]

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[51] 62 U.S. 322 (1859).

[52] Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), *cert. den.* 383 U.S. 934 (1966), *rehearing denied* 384 U.S. 914 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970) *cert. den.* 402 U.S. 904 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971).

7. The 1952 Patent Act

In 1950-1952, the gestation period of the Patent Act of 1952, present Title 35 U.S. Code, the nonpreemption of trade secret law stood **second to no other rule of law** in the firmness of its then establishment as a rule of law of our entire nation, second to no other in the sheer mass of contracts and commercial practice built on a rule of law.

That Act was written perhaps by four, but primarily by two men, The Honorable Giles Rich, now judge on the Court of Customs and Patent Appeals but then one of the National Council of Patent Law Association's two-man drafting committee for the patent law revision effort; and the Honorable Pasquale J. Federico, Examiner-in-Chief of the United States Patent Office and also chief technical advisor to both the House and Senate subcommittees having jurisdiction over the patent law codification. Mr. Federico personally wrote the entirety of the first draft of what became the Patent Act of 1952, and was a participant in both the bar studies and the Congress's studies in all the revisions that matured into that Act.

As a result of his deep involvement in all phases of the drafting and revision of drafts of what is now Title 35, Mr. Federico wrote a comprehensive "Commentary on the New Act" which was published by West Publishing Company as a foreword to its original publication of the New Title 35, United States Code Annotated.

As a result of deep involvement in all phases of the revisions after Mr. Federico's first draft, and his personal drafting of several sections of what became the new law, Judge Rich was asked to speak at the first Annual Institute on Patent Law, of the Southwestern Legal Foundation, Dal-

las, Texas, March 21-22, 1963, on "Congressional Intent — Or, Who Wrote the Patent Act of 1952?" His paper has been reproduced in "Seminars for Newly Appointed United States District Judges Conducted by The Federal Judicial Center," 1970 and 1971.

From both writings it is clear that the central theme of the 1952 Patent Act, was codification with only relatively "noncontroversial" changes. Nothing recorded anywhere that this Amicus has been able to find, suggests any cognizance by any of the drafters of the Act, or by any of the members of the committees of Congress, or by any of the members of Congress, that they were in fact changing thoroughly established trade secret law upon which billions of dollars of business practice was built — an assuredly controversial change.

Later, in his capacity as a judge, Judge Rich wrote again what he, an author of the Patent Act believed:

> "Patent laws function only to keep things out of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy or right to use, they speak only in terms of right to exclude."[53]

Present Title 35, Section 101 reads in part:

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, *may* obtain a *patent* therefor," (Emphasis added)

The statute is permissive; it is not mandatory. There is no language of taking from the inventor any rights if he fails to apply for a patent. If intended, it would have been easy to write *Kewanee's* new law cutting off trade

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[53] Opinion by the Honorable Judge Giles Rich in Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901, 902 n.2 (CCPA 1969).

secret rights after one year into perhaps the same patent statute paragraph as the one cutting off patent rights after one year of commercial use.

Recall that the Constitutional authority is limited to inventors. Congress has no constitutional authority as to noninventors, who collect trade secrets from, shall we say, spies in industrial plants in foreign countries. Are spies in foreign plants who are outside Congress's patent law authority, to be held not preempted while U.S. inventors are preempted, the statute saying nothing about taking rights from either of them?

Did either the statute drafters or the Sixth Circuit consider such anomalies when writing their respective law?

It is clear beyond peradventure that the consciousness of none of the legislative participants involved in the Patent Act had any cognizance of the thing *Kewanee* says they did.

Not one brain was ever cognizant of what the Sixth Circuit in *Kewanee* says was being done.

What frightful system of government that permits any law concerning billion dollar commercial impact to be made by "policies" alleged to be found in a statutory non-expression, without any single brain being cognizant of the alleged "policies" when drafting or enacting the statutory non-expression.

I. "Legislative History" of Preemption

1. *Non-preemption thru Gibbons, INS, Becher and Dubilier.*

It follows from the foregoing that the *Kewanee* rule is its own legislation. And like all legislation it has its own "legislative history," a history that is found in a series of *non*trade secret cases.

Accepting the *Gibbons* v. *Ogden* refusal to adopt patent law preemption in context of a recitation of 40 pages of argument on it, as a denial, it becomes fair to say that to this Amicus' knowledge the original conception between patent law and something it might preempt was in *Singer* v. *June*.[54] Using headnote paraphrases, the court there held:

> Where during the life of a monopoly created by a patent, the trade name has become the identifying and generic name of the patented invention, this name passes to the public with the cessation of the monopoly created by the patent.

The 1896 mating of patents and trademarks in *Singer* was an unfortunate error that for decades produced no offspring. Preemption did not timely follow from this mating.

The nonpreemption by the statutory copyright law of both the common law copyright and the law of unfair competition as applied to writings, seemed established in *INS* v. *AP*,[55] and the nonpreemption by the statutory patent law of the unfair competition law as applied to trade secret law seemed established by such as *Becher* and *Dubilier*,[56] all Supreme Court cases.

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[54] Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896).

[55] International News Service v. Associated Press, 248 U.S. 215 (1918).

[56] Becher v. Contoure Laboratories, Inc., 279 U.S. 388, 49 S. Ct. 356 (1929) and U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 53 S. Ct. 554 (1933), discussed at page 56 hereof.

2. *Kellogg's dictum, trademarks erroneously preempted*

After a forty year gestation period, *Singer* begot *Kellogg*[57] which cited *Singer*, and by divided court held as paraphrased in West's headnote 3:

> "Where 'Shredded Wheat' was the general designation of patented product during life of patents covering product and process of making it, the right to make the product as it was made during the patent period, and also the right to apply to it the name by which it had become known, passed to the public on expiration of the basic patent."

The court repetitively spoke in terms of "dedication" by expiration of the patents. But no patent law language speaks either in terms of "dedication" or of "trademarks", much less in terms of "trademarks being dedicated." And there are tremendous practical and legal differences between (a) termination of a *patent* right to exclude copying and use, and (b) grant to all members of the public by "dedication," of an affirmative right to copy and use a *trademark*. Apples and bananas!

While the *Singer* and *Kellogg* judgment-for-defendant results were correct under the trademark law,[58] the admixture of expired patent rights to quell trademark rights reads like Alice in Wonderland and has begot much mischief by those who speak the same erroneous expression in other fact situations as the unthinking parrot repeats what it heard.

We need to review again the relationship between several examples of rights to preclude, the better to understand that "expiration" of a right to preclude is not "dedication" of a right to copy and use.

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[57] Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 59 S. Ct. 109 (1938).

[58] See p. 69-70 infra.

Frequently, two patents cover the same product; i.e., one patent right-to-preclude-others "dominates" another patent which may relate to a subcombination or an improvement. Expiration of the dominated patent terminates *that* patentee's right to preclude; but it is uniformly held that this expiration does not grant anybody the right to use the invention of the expired patent when so to do would infringe the dominating patent. I.E., the expiration does not put anything into the public domain; it merely terminates a right to keep something out of it.[59]

* * *

Consider a second example. Suppose the patent is on a food or drug and expires. Clearly that expiration of the patent right to preclude does not put the food or drug forcibly into the public domain by dedicating to all the right to manufacture and sell—not if it is so toxic that food and drug law prohibits its manufacture or sale. There is no "conflict" between expiration of the patent right to preclude, and a continuation of the food and drug regulation policies which may preclude.

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3. Mazer's nonpreemption.

Suppose next that a design patent (fourteen years) is available on an artistic design of a lamp base, and a copyright (28 years) issues on the sculpture which is that same design. In *Mazer* v. *Stein*[60] the Court discussed at some length the different scope of copyright protection (only against copying) and patent protection (against use of the same concept whether copied or independently developed) and specifically held that the availability of

[59] Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F2d 901, 902, n.2 (CCPA 1969).

[60] 347 U.S. 201, 74 S. Ct. 460 (1954).

patent protection did not preempt copyright protection.

In ruling that appropriateness for patent rendered trade secrets preempted by the patent law, the *Kewanee* opinion shows no cognizance of the modern and closely parallel ruling by the Supreme Court in *Mazer*, that appropriateness for patent does not preempt copyright protection. On social policy (as distinguished from policies concerning federal structure of government) the two concepts seem indistinguishable; on social policy grounds, *Mazer* should control *Kewanee*.

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4. Trademark laws function independently of patents.

Return now to the example involved in *Singer* and *Kellogg*. A trademark is a word or design the significant meaning of which is *brand*. A trademark indicates a single source of a product, a single brand of that product.

The trademark right is the right of the owner of the mark to preclude the type of competitive use of the word or design (i.e. the trademark) which would cause the public to be confused as to the source of the product, whereby the purchaser in seeking one known quality would be deceived into getting another. The trademark owner's right is derived vicariously from the public right to be not confused. Trademark law has no concern for the patent law's concerns, inventorship, progress of the arts, inherent property in one's own creation, alleged monopolies on products. (The same product can be sold under different trademarks and normally is.)

But if a trademark word becomes generic, e.g., if the public through the proprietor's misuse of the mark comes to use the word no longer to suggest customer's preferred manufacturer or brand but rather to describe the type of

product he wants, then the public is no longer confused-as-to-source by competitive use of the word; it ceases to function as a mark. If "escalator" means "moving stairway," *any* moving stairway and not just Otis's *brand* of moving stairway, it no longer is a de facto mark and its former owner loses all legal rights in it.

But the loss of the trademark right is independent of the patent right, both in social purpose and in point of time. The right in a trademark (e.g., Magnavox, Ivory or Ford) may last 70 years without monopolizing the product, or the right may terminate upon the word going generic (as did escalator, cellophane, aspirin) perchance in five years — and the patent law could not care less.

In both *Singer* and *Kellogg* the several significant patents in each case expired at different times; no one of their expirations effected the loss of the trademark rights. In reality it was the public's lack of familiarity with any other descriptive or generic word but the former mark, now used descriptively by the public, that terminated the trademark right. The patents were handy and got blamed for the loss of the trademark rights by association. But the trademarks terminated by operation of the *trademark* law.

It is significant to note that in both *Singer* and *Kellogg*, not only was the reference to patents error, it was dictum; for the judgment was properly founded upon the mark going generic and it was not necessary to reach patent law dedication. Dictum error building on dictum error.

5. *Scott Paper; good faith in business is no longer important public policy.*

Soon after *Kellogg* came the "assignor-estoppel" case, *Scott Paper*.[61] A philosophy against restraints on trade

[61] Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 66 S. Ct. 101 (1945).

seems in 1945 to have dominated the thinking of some members of the Court which in 1945 spoke not infrequently in absolute terms of monopoly when only the mildest restraints were involved.

The issue in *Scott Paper* was whether the assignor of a patent who got valuable consideration for his assignment, when charged with infringement, should be permitted to construe the scope of the assigned patent down to zero valid scope (in effect, invalid) under the guise of arguing noninfringement. Could he totally nullify the patent he sold or should this one party, the assignor, be estopped by his own prior assignment-for-value from such action? The prior art relied upon by the assignor-infringer was a prior expired patent.

Only a few years before the Court had written in *Kellogg* about "dedication" upon expiration of a patent, citing *Singer*. So now, citing *Kellogg* and *Singer* the Court again got hold of this "dedication" word and used it to implement its no-restraint-of-trade philosophy. Said the majority of six justices: The expired patent dedicated its subject matter to the public, including the assignor-infringer of the patent in suit through which the public could enjoy the benefits of the dedication. Further:

> "The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power."[62]

It shocks and astonishes, to see our highest court so callous as to give the back of its hand with a cavalier wave, to private good faith. No wonder we now have air force Lieutenants falsifying records on Cambodia bombings; White House officials condoning break-ins for wire taps;

[62] Id. at 257.

etc. Who if not the Supreme Court should be a leader in encouraging high regard and priority position for private good faith?

Over separate dissents by such as Mr. Justice Reed and Frankfurter, the Court wrote "dedication" into the patent law, to justify its refusal to permit one party among thousands of potential competitors to be estopped from disavowing his own contract, hence from use of the teaching of one expired patent.

Antitrust is not the sole public policy, not the one true god at whose alter all other public policy should bow down.

6. Sears and Compco vs Wallace China

The stage was fully set in *Scott Paper,* for *Sears* and *Compco*[63] where the design patents on ornamental designs had been held invalid, and the lower courts had granted judgment for plaintiff on ground that copying the designs was unfair competition.

It seems clear that if the courts in *Sears* and *Compco* had applied the proper unfair competition and product simulation law which is characterized in *Pagliero et al* v. *Wallace China Co.*,[64] the Court's judgement-for-defendant result which seems so necessary to reconciling the intellectual property laws into a single coherent fabric, would have obtained without the mischief of patent law preemption.

The starting point of what is fair and unfair common law of product simulation is a right to copy and use published works learned of without an obligation of confidence. To that right there are many exceptions of different social purpose, term and scope, e.g., the patent right, the

[63] Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).
[64] 198 F.2d 339 (9th Cir. 1952).

copyright, the anti-palming-off unfair competition right, the food and drug regulation right, the trademark right, the anti-breach-of-confidence right, etc.; but none of the exceptions fit *Wallace's* situation.

Wallace's biggest argument was that it was the originator and market-developer of four china designs and that that originator-developer fact alone gave it rights, particularly since the designs had acquired trademark "secondary meaning," i.e., the public identified the designs with Wallace as the source. But the design was of interest to the purchaser for its design function and had been published by Wallace; and the trademark right (being not designed to monopolize or restrain trade in the *product* the public wanted, but only to assure lack of public confusion as to *source* of the product) could not properly be applied to the product feature which the public wanted to buy as product feature. The social purpose of trademark law did not reach that far.

So the common law of trademarks and unfair competition (under *Erie*, common law is state law), adopted into the Lanham Trademark Act § 44(h), 15 U.S.C.A. § 1126(h), the Paris Convention (53 Stat. 1748) and Pan-American Convention (46 Stat. 2907), did not in the Ninth Circuit's view Paris Convention (53 Stat. 1748) and Pan American Conreach far enough to give *Wallace* the right it claimed. There was an unfair competition law limit on the unfair competition law; no patent law issued was involved.

In *Sears* and *Compco*, where the *Wallace* China unfair competition law so perfectly fit to dictate the socially desirable result, the Supreme Court got its hand on the wrong handle. The Supreme Court took the unrefined, indescriminate, bull-in-china-closet approach, that since the patent law concerned itself in some manner with mechanical configurations [if and when they are new and nonobvious in-

ventions by inventors], the patent the patent law inherently preempts state unfair competition law power over the light fixture designs. Of course, citing *Kellogg* and *Singer*, among others.

By the measure of *Anderson's Black Rock*[65] the inventions in *Sears* and *Compco* failed to meet what *Anderson's* called a Constitutional standard of patentability, one which for this purpose we will assume exists. (Contrast last paragraph p. 53 et seq. hereof).

In view of the reservation to the states of all powers not granted to the Congress, if the inventions were not patentable under the Constitution, no state law applicable thereto can have been preempted by the Constitution. For there is no hiatus, no void, in the powers: What power is Constitutionally *not* in Congress, *is* in the states.

Yet the court wrote in *Compco* this characterization of its holding in both *Sears* and *Compco*:

> "Today we have held in *Sears* * * * that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article."[66]

This total expression of preemption, irrespective of whether the inventions meet what the Court in *Anderson's Black Rock* calls a Constitutional requirement for patentability, is patently wrong in view of the reservation of all nondelegated powers to the states.

This *Compco* expression is one of preemption irrespective of breach of confidence (which was not before the court), irrespective of whether the article was made by an inventor or a noninventor (Congress is empowered only

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[65] Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 90 S. Ct. 305, 308 (1969).

[66] 376 U.S. at 237.

to secure rights to inventors and may not dabble in rewards to noninventors as *Stiffel* and *Day-Brite* were held not to be).

—Error built upon prior dictum error, and not at all necessary since the same result obtains under quite sound *Wallace China* unfair competition law.

7. Sears, Compco and the explosion of unfair competition acts

Whether by coincidence or as a result of *Sears* and *Compco* and their arguable partial overrule of *INS, Becher* and *Dubilier*[67], *Sears* and *Compco* were followed by a bloom of phonorecord piracy which resulted in many state statutes rendering phonorecord or tape piracy a crime and an amendment to the federal copyright act which rendered phonorecord or tape piracy an act of copyright infringement — both directed to legal remedies for the same wrong which prior to *Sears* and *Compco* were illegal under *INS*.

Similarly, theft of trade secrets took such a turn that 21 states passed laws rendering theft of trade secrets a crime[68] and others construed their existing law to the same effect. The fact that *Sears-Compco* language spoke of preemption in near-total terms was in those acts disregarded because trade secrets were not before the court nor briefed to the court in *Sears* and *Compco*.

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[67] International News Service v. Associated Press, 248 U.S. 215 (1918); Becher v. Contoure Laboratories Inc., 279 U.S. 388 (1929); U.S. v. Dubilier Condenser Corp., 289 U.S. 178 (1933).

[68] See note 39, *supra*.

(8) Lear

Then the licensee-estoppel case, *Lear, Inc.* v. *Adkins*[69]: a suit seeking to collect royalties due under a contract of license of an invention and patent thereon; a defense that the subject patent is invalid, hence no royalties are due in spite of the license; the issue briefed to the Supreme Court being whether the licensee was estopped by virtue of being a licensee from contesting the patent's validity.

In spite of an acknowledged 100 years of prior licensee-estoppel law, the Court (again pursuing its *Scott Paper* theme against even de minimis restraints on trade in the name of patent property) decided that the licensee Lear was no more estopped to contest patent validity than the Marcalus assignor to Scott Paper.[70] Private good faith still seemed to the Court to be relatively unimportant by comparison with getting every last *one* (of dozens to thousands domestic and foreign potential competitors) freed of estoppels against competition.

Mr. Justice Black (who had written *Sears* and *Compco*) wrote for himself, and Justices Douglas and Warren, a special opinion expressing this time, total patent law preemption of the right to contract for royalties on unpatentable inventions. Mr. Justice Black's fixation on "monopoly" concept is peculiar. As a premise in support of his view, he wrote inter alia:

> "No state has a right *to authorize any kind of monopoly* on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws."[71]

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[69] 395 U.S. 653 (1969). See Arnold and Goldstein, "Life Under *Lear*", 48 Texas Law Review 1235 (1970).
[70] 395 U.S. at 673.
[71] *Id.* at 677 (Black, J, dissenting).

> Under Justice Black's view, if the innovation is "claimed" to be an invention, the state loses all power over it even though the innovation turns out to be not an invention within Congress power to patent and even though powers not granted to Congress were reserved to the states.

And Justice Black goes on to include within his rule, "private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments," saying these "run counter to the plan of our patent laws."[72]

But one or two people's contract to keep a secret is jolly well no "monopoly" when dozens, hundreds and thousands of other businesses are free to develop, publish, use and compete. And forcing them to pay for or develop new technology will better serve society through progress in the arts than sponsoring their nondevelopment free-loading.

The majority of the Court declined Mr. Justice Black's invitation, recognized that voiding of all contracts for disclosure of information was a "difficult" question, invited courts [why not legislative bodies?] to "fully focused inquiry" on the point, and remanded it. After all, the point had not been decided by the Court below, was not mentioned in the petition for writ of certiorari, was not really briefed to the court.

It is horrifying to contemplate a system of government which would permit such economically important new law to be made in a case like *Lear* where the public was not advised of the pending development and the parties' attention was totally focused on other issues which at the time were the fundamental issues at hand.

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[72] *Id.*

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(9) Goldstein v. *California*

The Supreme Court has recently considered whether the copyright law really did preempt the state criminal laws passed following *Sears* and *Compco* to stop the multimillion dollar losses of the legitimate phonograph record companies from tape and record pirates.

On June 18, 1973 the Supreme Court in *Goldstein* v. *California*,[73] by a five to four divided court, held that the copyright law did not preempt California record piracy law. But at best the opinion is surely a mixed bag for the trade secret proprietor and licensor.

At the outset recall a fundamental difference between the copyright and the patent statute. The patent statute has no reference to common law and equity rights. But Section 2 of the Copyright Act, Title 17 U.S.C. provides:

> "Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor." * *

The right at common law and equity to be the first to publish is part of Congress's statutory system with respect to authors. Until *Kewanee* the courts uniformly held common law and equity to be part of the system also with respect to inventors — and particularly with respect to technologists other than inventors.

The positive statement of Copyright Act § 2 that certain common law rights are preserved, seems to carry a negative implication that other common law rights, if any, may be

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[73] ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

not preserved. But since the phono records and tapes in *Goldstein* had clearly been published, the role of 17 U.S.C. § 2, as applied to preemption, did not get into the *Goldstein* opinion.

The *Goldstein* opinion develops for some pages the issue of constitutional (as distinguished from statutory) preemption of state "power to grant to authors 'the exclusive Right to their respective Writings'." The conclusion: No *constitutional* preemption of state grant of exclusive right to authors in their writings, and this irrespective of the duration of the state's grant.[74] That portion of the opinion would read equally well, word for word, to the conclusion that the Constitution does not preempt state patents or trade secret protection of unlimited term.

But what of the federal copyright *statute*? The Court digs deep into legislative intent of the copyright statute, noting: The Congress pointedly waited on the Supreme Court's *White-Smith*[75] opinion which held piano rolls were not "copies" within the meaning of the then copyright act; Congress then determined that the copyright statutes should be amended to insure "that *composers* of original musical works received adequate protection to encourage further artistic and creative effort," and passed § 1(e) that records and piano rolls were to be considered as "copies" of the original composition and could not be manufactured unless payment was made

> "to the proprietor of the *composition* copyright. The section of the House Report cited by petitioners was intended only to establish the limits of the *composer's* right [no mention of performer's rights or record

[74] 178 U.S.P.Q. at 139.

[75] White-Smith Music Publishing Co. v. Apollo Co., 209 U.S. 1 (1908).

> manufacturer's rights]; * * * Nowhere does the report indicate * * * that Congress intended records as *renderings* of original artistic *performance* to be free from state control."[76] (emphasis modified).

Said the court further,

> "recordings qualified as 'writings' within the meaning of the Constitution, but had not previously [to the 1971 Act of Congress[77]] been protected under the federal copyright statute [except that the composer was entitled by the 1909 Act's § 1(e) to his compensation]."[78]

Hence, *Sears* and *Compco* do not apply because the federal copyright statute did not preempt state law protection of recordings fixed prior to the February 15, 1972 effective date of the 1971 Act (which subjected records to copyright protection).[77]

It is important to note that in *Goldstein* briefs to the Court and the Court seemed to presume without analysis of the point, that the copyright statute insofar as it reaches subject matter (composer's rights), is something more than a statutory right to exclude which expires without affecting any right to exclude that exists by virtue of any other social purpose or law. The premise was that the copyright law is an affirmative stautory putting-of-something-into-the-public-domain into the teeth of any state law of any kind that relates to composer rights. While the pragmatics of tactical reality compelled the parties not to challenge this premise, it remains difficult to see why the Supreme Court did not

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[76] *Goldstein*, 178 U.S.P.Q. at 137.

[77] Pub. L. 92-140, 85 Stat. 391, 53. Query: Did the 1971 federal copyright coverage of recordings then preempt the California statute, so that as of the date of the Supreme Court's *Goldstein* decision of nonpreemption, the California state statute had by then been preempted? It seems that *Goldstein* erroneously says yes!

[78] *Goldstein*, 178 U.S.P.Q. at 138.

acknowledge that such a distinction exists to be considered in its opinions.

The copyright law relationship to recordings seems to be all that was significantly briefed to the Court. Had the Court stopped with its ruling on that point, the nonapplication of *Sears* and *Compco* to innovations by importers and other noninventors and developers whose developments did not measure up to constitutional and statutory standards of patentability, would seem clearly to be established by *Goldstein*. For patent statute drafters not only did not, they constitutionally can not, treat of works by other than "inventors."

If the extent of copyright law preemption can turn upon the difference between the writings of composers (preempted) and of the writings in a phono record of a performer (not preempted), then patent law preemption ought also turn on the difference between the § 103 patentable work of inventors (as to which the patent statute speaks) and the nonpatentable works and noninventors' works (as to which the statute merely says no *federal* patent is obtainable, *without* saying whether the subject is or is not in the public domain).

But courts, like all the rest of us, have to do some things which seem expedient. And this court appears to have felt constrained not to overturn *Sears* and *Compco*, erroneous though their rationale is.

Recall here that *Sears-Compco* were both cases on competitive simulation of published and marketed lighting fixture products whose published and marketed mechanical configurations had been copied **without breach of confidence.** The *Goldstein* court did not study Congressional legislative intent on "mechanical configurations" because they were not before the court and were not really briefed to the court.

But the court did recall that the question in *Sears-Compco* "was whether a state could, under principles of state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent."[79]

The Court then quoted from *Sears* with apparent approval, and went on:

> "In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, *but which configurations it wished to remain free.*"[80] (emphasis added)

The Congress only considered which it wished to remain free *of federal patents,* NOT which it wished to remain free of common law, equity, breach of confidence, food and drug, and other restraints. But the Court seems to miss that vital distinction and continues on:

> "The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way to the Supremacy Clause of the Constitution.[81]

"The careful balance which Congress had drawn", seems to this student of legislative history of the Patent Act, to be rhetorical overstatement. No "care" on this point, or "balance" is shown as to equity, common law, trust and

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[79] *Id.*
[80] *Id.*
[81] *Id.*

confidence, or any patent law purpose. But cliches and phrases have a power in human thought, independent of their truth, and when spoken without analysis or understanding, they seem often to be the more powerful. When they are placed as a subordinate thought, they are in the foundation-stone role, buried and likely not to be closely examined as will be the structure built upon them — and so they may there have even greater potential for mischief among well meaning men.

* * *

So from case to case, *Singer, Kellogg, Scott, Sears, Compco, Lear,* and now *Goldstein,* we see a group of cases wherein no trade secret law was involved, commence with dictum error of preemption, then build preemption in case after case, until the Supreme Court majority itself, in *Goldstein* purports now to have specifically considered and affirmed

patent law
preemption
of constitutionally
unpatentable
developments
of *non*inventors

because

Congressional legislative intent
reached, allegedly, all
"mechanical configurations."

irrespective of powers reserved to the states re noninventor's mechanical configuration work.

J. The Legislative Process v. The Judical Process — For New Law Making

The difference between legislating and common law making is a gradation with no natural boundaries and few guideposts to separate the one from the other. In truth, legislative bodies inherently make premise findings of fact, judicially, when they legislate; and courts legislate when they construe Congressional and Constitutional writings which inevitably include language readable on situations the authors did not contemplate or decide-an-issue about.

But there are guideposts as to where the judiciary should properly decline to act in favor of the legislature. The Supreme Court has often written of those guideposts. This Court has followed them in the patent law area as well as others.

The judicial process is inherently a relatively ivory-towered process. Examples: The judiciary cannot send investigators into an industry to study its economics and practices and bring back studies. By contrast, the Congress has in very recent years published for criticism dozens of studies of different facets of patent system function as well as drafts of proposed patent acts.

The judiciary often can know nothing of international impact of its rulings; the Congress gets input from the Department of Commerce, the international businesses and other lobbies.

The judiciary cannot publish a draft rule of law, have it cross-examined by those who would be effected, hold public hearings to hear comments on inadvertent error or ambiguities, then revise the rule before its promulgation with errors or ambiguities visits tremendous mischief upon those who know not how to apply it to their situations.

In areas such as the social role of R & D and its real life economics, the judiciary does not have ready access to what Mr. Justice Frankfurter called "the realities of law in action," and rather must decide upon the basis of its relatively ivory-towered and sometimes sterile generalizations and speculations.

It is against those background realities that the Supreme Court was writing very recently in Gottschalk:[82]

> "* * * considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems [and international economic problems?] tendered in the many briefs before us indicate to us that considered action by the Congress is needed."[83]

That writing was in a case involving the patentability of a process for operating a computer, which most of us would call a machine, and wherein the act of Congress had already recited that a new process for operating a machine was patentable. 35 U.S.C. §100(b). But apparently because the Court did not think the Congress had given enough consideration to *computer* machine processes, it held the Benson process to be unpatentable subject matter until Congress could act again more directly to the point.

In another case, wherein the government was urging a change in the policy of title to inventions made by employees — philosophically a related issue to the *Kewanee* employees' claims — the Supreme Court stated:

> "The courts ought not to declare any such policy; *its formulation belongs solely to the Congress* . . . . These

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[82] Gottschalk v. Benson and Tabbot, 409 U.S. 63, 93 S. Ct. 253 (1972).

[83] *Id.*, 93 S. Ct. at 258.

> are not legal questions which courts are competent to answer. They are practical questions and the decisions as to what will accomplish the greatest good for the inventor, the government and the public, rests with the Congress. *We should not read into the patent law limitations and conditions which the Legislature has not expressed.*"[84] (emphasis added)

It is clear that the "Legislature has not expressed" *Kewanee's* new rule.

The trade secret law, having a history of many decades of uninterrupted coexistence with the patent law, brings to mind the weighty admonition of Chief Judge Cardozo in *Coler* v. *Corn Exchange Bank*[85]:

> "Not lightly [to be] vacated is the verdict of quiescent years.'

Here the verdict has stood for perchance a century of quiescent years and supports what now is business activity in the billions-a-year range.

A court with only the special circumstance of its plaintiff and defendant before it, and no economic data or industry practice information before it, is inherently presumptuous, yea perchance arrogant, to indulge such devastation to established business practice as the original creative expression of the *Kewanee* rule.

Preemption should be subjected to the scrutiny of the legislative process.

And the Congress has now before it, the Administration's proposed "Patent Reform and Modernization Act of 1973" with a section 301 which expressly negatives preemption of state trade secret law.

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[84] U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 198, 53 S. Ct. 554, 561 (1933).

[85] 250 N.Y. 136, 164 N.E. 882 (1928).

K. Shadows Do Not Fight

There is a common law right to copy and use—with exceptions.

Each of the exceptions is like a shadow, cast from its own light of social purpose.

Each shadow is of different shape and different life time.

The shadows of copyright, patent, trademark, trade secret, breach of confidence rights to exclude others, all overlap some of the same nuggets of commercial gold, for the same design perhaps for a lamp fixture may be copyrighted, may be patented, may be a trade secret until it is marketed, may be used as a trademark.

But shadows do not fight.

If the trademark word becomes generic, the trademark shadow is removed without affecting the social purpose, scope or term of the patent shadow, or the others.

If the patent on an ornamental design expires, its shadow is removed without affecting whether or not that item is also a work of art which may qualify for copyright protection of narrower scope but that lasts longer.

When the patent issues it publishes the secret of the concept of the invention; to the extent of the publication the trade secret may be no longer confidential so the shadow of trade secret right is withdrawn without affecting the longer lasting patent right.

When the patent expires the patent right to exclude expires but no other right to exclude expires or is suggested in the patent statute to expire. If after the 17th year of a process patent the owner develops a new and cheaper way to practice the same patented process, his right of freedom from theft of his new secret and from

breach of trust can continue, out of the social purpose of equity and honesty and independent of patent law social purpose.

The only reconciliation of the various intellectual property rights to exclude, is one which recognizes that: Each right to exclude expires with the running of its **own** social social purpose, with no other right to exclude being affected by it, just as each shadow being taken away may leave the others, one or more, not fighting.

There is social and legal logic and merit in letting the social purpose of the patent law limit the scope and term of the patent right to exclude, the social purpose of the trademark law limit the term of the trademark right to exclude, the social purpose of the contract and tort law limit the scope and term of the trade secret right to exclude. For the shadows of the various social purposes do not fight.

VI.

Conclusion

This Amicus submits that the realities of law in action are such that patent law must not be permitted any preemption of trade secret law or practice — except insofar as the patent (like any other publication) publishes, destroys the confidence, and thereby precludes any breach of a confidence. And since patents disclose primarily the conceptual level of knowledge as of patent application time, this does not reach to such as new manufacturing know-how expensively developed often years after patenting time.

Further, this Amicus submits that no one of the intellectual property concepts should in social policy preempt the others — certainly none should be permitted to interfere with judicial promulgation of ever higher standards of business ethics and honesty.

Rather each intellectual property law must be honed on its *own* social purpose, properly to serve the public interest.

The Legislature rather than the judiciary should, in this complex area, be the government vehicle for the honing.

• • •

> "'Thou shall not steal' presupposes private ownership • • • Plainly, the excellence of our performance as social beings stems from private ownership of our labor and its fruits, whether material, moral, intellectual or spiritual".
>
> Leonard E. Read, *Meditations on Freedom*

Respectfully,

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APPENDIX A

Dollar Significance of Technology Within The Kewanee Rule

Know-how is very often sold for speculative values in equity participation, rather than for royalties or dollar payments. Such transactions of course do not ordinarily appear in economic data. Many of the major transactions are in royalty-free exchanges of data with no dollars attached at all, and these too are largely omitted from statistical studies. Further, payments for trade secret know-how are commonly intermixed with payments for other values ranging from patent licenses to training of the licensee's personnel.

Accordingly, it is impossible to gather precise figures on the dollar volume of know-how conveyances by United States industry. But as a rough estimate the billion-dollar-plus order of magnitude is reliably available from a number of sources, such as Department of Commerce studies of sources of international balance of payment credits, etc.

The 1961 figures from *Technological Innovation: Its Environment and Management,* A Report of the Panel on Invention and Innovation, U.S. Department of Commerce, 1967, are of interest though the figures are now some 12 years old. There we find:

> "An important element of our international balance of payments is what is called the 'technological' balance of payments. This international account reflects payments for technical know-how, patent royalties and the like. In a recent study of the technological balance of payments of various countries, the 'Organization for Economic Cooperation and Development' (OECD) published data for the United States which are depicted in Chart 5. The OECD compilation shows the U.S. receiving roughly ten times the technological payments

> from abroad as goes out in payments to other nations. This is a very significant secondary effect of innovation in the American economy."

The Chart 5 referred to in the above quote shows 1961 payments to other countries, $63,000,000; receipts by U.S. from others in 1961, $577,000,000; net balance to U.S. in 1961 of $514,000,000. These figures of course do not count domestic know-how licensing, nor the explosive increase in technology transactions in the last 12 years.

The National Industrial Conference Board, Inc., 845 Third Ave., New York, New York 10022, in its 1969 research report *Appraising Foreign Licensing Performance, Studies in Business Policy, No. 128*, cited published and unpublished data from the U.S. Department of Commerce, and stated that "receipts of royalties and license fees from abroad have more than doubled over the course of the last ten years, rising from around $378 million in 1957 to an estimated $786 million in 1967."

In *Survey of Current Business*, U.S. Dept. of Commerce, Vol. 51, No. 3, March 1971, the income to the United States in 1970 in fees and royalties from international arrangements is stated to be $1,538,000,000.

The exact amount of these fees and royalties which are properly allocable to know-how rather than patents or other sources is unknown, but many persons who work in technology licensing believe that the license value of unpatented technology is as significant as the license value of patented inventions.

A study of the relative importance of income from patent licensing and from know-how licensing is described in *Comparative Income Roles of U.S. Industrial Property Rights Licensed Abroad,* 14 IDEA 352, Fall 1970. This

study is informative, but it does not provide precise answers.

After review of the above figures, extrapolation to 1973, and subtraction for direct patent licenses which may be included, one comes to the conclusion that an order of magnitude approaching a billion dollars for income to the United States under *international* licenses of unpatentable trade secrets is a plausible figure. At the same time, one can reasonably conclude, based on the above 1961 data, that perhaps 10% as much, i.e., a value approaching one hundred million, is being paid annually by U.S. Industry to foreign business in exchange for foreign-developed know-how.

After addition of an unknown but very substantial value of domestic trade secret licenses (no meaningful figures are known), and royalty-free cross-exchanges of technology of assuredly big value but not appearing in the survey data, one must surely conclude that multiple billions are involved, annually in the licensing of U.S. owned trade secrets.

If one capitalizes the annual income to an asset value, the present asset value of U.S. trade secret know-how, which is within the *Kewanee* rule is in the order of magnitude of several billions of dollars, since very little, if any, technology is licensed for such high figures unless placed in use and usable for much longer than a year.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was mailed on or before November 21, 1973 to each counsel of record as follows: Mr. Edward P. Troxell, Jones, Day, Cockley & Reavis, 1750 Union Commerce Bldg., Cleveland, Ohio, 44115; Mr. Rober Milgrim, Milgrim, Tomajan and Jacobs, 25 Broadway, New York, New York, 10004; Mr. Wm. C. McCoy Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio, 44114.

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